Mepp

Municipal Employees' Pension Plan

Your Pension • Your Future

ANNUAL REPORT 2015

IN THIS REPORT

2 Letters of Transmittal

3 Chair's Comments

4 2016 Highlights

6 Plan Profile

7 Your Commission

13 Plan Expenditures and Statistics

17 Key Performance Indicators

21 Strategic Initiatives & Risk Management

29 Investments

35 Management's Report

36 Actuarial Opinion

38 Independent Auditors' Report

39 Statement Of Financial Position

40 Statement Of Changes In Net Assets Available For Benefits

41 Statement of Changes in Pension Obligations and Provision For Annuity Obligations

42 Notes To The Financial Statements

66 Appendix - Description of Market Indices

This annual report is available in electronic format at **www.peba.gov.sk.ca**

Municipal Employees' Pension Plan (MEPP)

MEPP provides retirement benefits to the employees of school divisions, urban and rural municipalities, regional colleges, regional public libraries and other local authorities within the Province of Saskatchewan.

Purpose Mission & Values

Our Purpose

To provide retirement income and pension services to members.

Our Mission

To oversee and direct the administration of the Plan, and manage the assets, all in the best interests of the members.

Our Values

Accountability • Professionalism • Integrity • Fairness

Letters of Transmittal

Kevin Doherty
Minister of Finance

Her Honour, The Honourable Vaughn Solomon Schofield
Lieutenant Governor of the Province of Saskatchewan

May it Please Your Honour:

I respectfully submit the Annual Report of the Municipal Employees' Pension Plan for the year ending December 31, 2015.

Kevin Doherty
Minister of Finance

The Honourable Kevin Doherty
Minister of Finance

Sir:

On behalf of the Municipal Employees' Pension Commission, I have the honour of submitting the Annual Report of the Municipal Employees' Pension Plan for the year ending December 31, 2015.

Rory Griffith
Chair

Chair's Comments

Rory Griffith, Chair

It is my privilege to Chair the Municipal Employees' Pension Commission (MEPC) for 2016. On behalf of the Commission, I would like to express appreciation to Wayne Steen for his commitment and leadership in serving as the previous Chair. I would also like to thank the members of the 2015 Commission and the administration of the Public Employees Benefits Agency (PEBA) for their dedication to the MEPP Plan and its members.

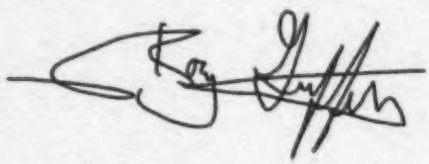
This year was an exciting year for MEPP. In 2015, plan assets, plan membership, and participating employers all saw an increase in numbers. We introduced a new logo and refreshed brand to keep with our ongoing commitment to customer service excellence. We also started offering a new half-day workshop for MEPP members in their twenties and thirties. "Your Pension, Your Future" encourages members to take ownership of their financial future and help them understand the importance of having a personal financial game plan.

We are currently working to improve our MEPP administration system and are creating an enterprise-wide member engagement and digital strategy. These initiatives will help MEPP keep up with the ever changing environment of pensions.

Moving forward, the Commission will remain committed and diligent in governing MEPP's defined benefit plan. We will continue to dedicate our time in managing the Plan's assets to ensure the Plan is sustainable. With improvements to our pension resources, retirement planning tools and workshops we aim to help our members make informed decisions about their retirement.

The Commission shares a desire in serving and expanding MEPP's services in the best interest of our members, and I look forward to the achievements of the Municipal Employees' Pension Plan in 2016.

Sincerely,



Rory Griffith
Chair

2015 By the Numbers (as at December 31, 2015)

$2.15b MEPP manages

94.8 million

Contributions made to the plan

63.7 million

Total pension payroll

31.8 million

Total transfers, refunds, and termination payments

7.6 per cent

Total fund return
Benchmark is 5.8 per cent

16.1 million

Investment and administration costs

Member Profile

24.9 thousand

plan members

including active, inactive & pensioners

member assets of $2.15 billion

Total MEPP Fund Investment Performance (%)										
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Total fund return	7.6	20.8	9.6	14.5	0.6	10.0	14.5	(16.2)	4.2	13.6
Benchmark	5.8	19.5	8.6	10.8	0.4	10.1	15.5	(17.7)	3.3	12.9
Rolling 4-year Average Returns (%)										
Total fund return	13.0	11.1	7.8	9.8	1.5	2.4	3.2	2.7	10.3	13.0
Benchmark	11.0	9.8	7.6	9.4	0.1	1.9	2.7	1.7	9.3	12.0

Comparative Investment and Administration Costs ($ thousands)										
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Administrative costs	5,758	5,330	4,997	4,894	4,922	4,048	3,654	3,162	2,822	2,540
Custodial fees	271	599	786	518	141	155	167	210	207	128
Investment fees	10,106	8,635	7,865	5,498	4,655	4,254	4,828	6,112	3,906	3,237
Totals	**16,135**	**14,564**	**13,648**	**10,910**	**9,718**	**8,457**	**8,649**	**9,484**	**6,935**	**5,905**

Active

5.2 thousand pensioners

47.2 years average age of active members

Plan profile

The Municipal Employees' Pension Plan (MEPP, or the Plan) is a defined benefit pension plan. Pensions are based on a formula that provides pension, disability, death and termination benefits for all eligible members. The formula is based on highest average salary, pensionable service and the accrual rate in effect during the years of service. Members contribute a fixed percentage of salary. Employers match these contributions.

The amount of pension a member will receive is not directly related to investment returns. An adequate level of contributions and positive investment returns are necessary to secure the Plan's ability to pay benefits.

Under normal retirement rules, members may retire and receive a pension with no reduction if they are 65 years of age, or if their age and eligibility service equal at least 80 years. Members may retire and receive a reduced pension if they have reached age 55 and have at least 15 years of eligibility service.

Designated firefighters and police officers may receive an unreduced pension if their age and eligibility service equal at least 75, they are 55 years of age, or they have at least 25 years of eligibility service. These members may retire and receive a reduced pension if they have reached age 45 and their age and eligibility service equal at least 70.

MEPP's history begins in the 1940s. Initially, the Rural Municipal Secretary Treasurer's Superannuation Plan was established in 1941. In 1949, the Urban Employees Superannuation Plan was established. In 1959, these two plans joined to form the Municipal Employees' Superannuation Plan, which became a defined benefit plan in 1973.

MEPP is registered under the ***Income Tax Act*** (Canada) and ***The Pension Benefits Act, 1992*** and related regulations. It is governed by ***The Municipal Employees' Pension Act*** and related regulations.

The Plan holds over $2 billion in total assets. MEPP's membership consists of almost 25,000 members of whom approximately 5,000 are pensioners.

LEFT TO RIGHT:
Betty Moleski, Randy Hurd, Wayne Steen, Brad Hvidston, Randy Goulden, Harvey Malanowich, Tim Leurer, Beverly Crossman **NOT PICTURED:** Jeff McNaughton, Rory Griffith

Your Commission

The Municipal Employees' Pension Commission (the Commission) administers MEPP. The Commission has the fiduciary responsibility for administering MEPP and managing the investment activities in the best interests of all MEPP members.

The Commission has 10 members, five appointed on behalf of participating employers and five on behalf of employees. The full term of office for Commission members is four years. A member may be appointed for two full terms.

Each year the Commission members elect a Chair and a Vice-Chair. At December 31, 2015, the Commission was composed of the members listed below.

Wayne Steen, Chair
Saskatchewan School Boards Association

Randy Hurd, Vice-Chair
Associations representing Designated Police Officers and Firefighters

Beverly Crossman
Regional Colleges/ Regional Libraries

Randy Goulden
The Saskatchewan Urban Municipalities Association

Rory Griffith
The Saskatchewan Association of School Business Officials

Brad Hvidston
The Urban Municipal Administrators Association of Saskatchewan

Tim Leurer
The Rural Municipal Administrators' Association of Saskatchewan

Harvey Malanowich
The Saskatchewan Association of Rural Municipalities

Jeff McNaughton
Saskatchewan School Boards Association

Betty Moleski
Trade Unions representing employees who are members of the Plan

Attendance

The Commission met eight times in 2015. Table 1.1 shows the number of meetings each Commission member attended.

Name	Number of Meetings Attended
Wayne Steen	8
Randy Goulden	7
Jeff McNaughton	8
Beverly Crossman	7
Harvey Malanowich*	2
Ray Orb**	4

Name	Number of Meetings Attended
Randy Hurd	7
Rory Griffith	8
Betty Moleski	8
Brad Hvidston	4
Tim Leurer*	3
Don McCallum**	2

Table 1.1

* These members' appointments began in September 2015. They were eligible to attend three meetings.

** These members' appointments ended in August 2015. They were eligible to attend five meetings.

Mission

The Commission's mission is to oversee and direct the administration of the Plan, and manage the assets, all in the best interests of its members.

Goals

Customer Service Excellence

The Commission is determined to identify, assess, and implement opportunities where appropriate, that add value to the communication and service provided to Plan members.

Plan Integrity

The Commission is committed to achieving the needs of Plan members and employers through affordable, sustainable Plan benefits and services.

Governance Leadership

The Commission strives to demonstrate leading practices of pension plan governance.

Transparent Accountability

The Commission informs the Plan's members and stakeholders about its strategy, operations and values, as well as how Plan performance is measured, managed and reported.

Values

Accountability

We are accountable to the members and the stakeholders of the Municipal Employees' Pension Plan for our administration of the Plan. We operate in a transparent manner.

Professionalism

We strive for excellence in the administration of the Municipal Employees' Pension Plan by being diligent and making informed decisions.

Integrity

As trustees of the Municipal Employees' Pension Fund, we hold ourselves to the highest standards of integrity. We strive to always act with honesty and in a manner worthy of the trust our members have placed in us.

Fairness

We administer the Municipal Employees' Pension Plan in the best interests of all members of the Plan. We strive to ensure that our decisions are equitable for all Plan members by adhering to decision making that is fair and open-minded. Our actions are courteous, considerate and responsive.

Education

There is an education program for commission members. The purpose of this program is to ensure the Commission members possess a sound knowledge and understanding of pension, investment and governance issues. The Commission budgets $5,000 per year for each Commission member for educational registration fees.

Upon appointment to the Commission, new members receive information outlining the documents that come before the Commission, the Municipal Employees' Pension Plan member booklet, the Annual Report, information on the budget, the funding policy, the Statement of Investment Policies and Procedures (SIP&P), the Strategic Business Plan and updates, the Risk Management Plan and review of the previous year's Risk Management Plan, as well as the meeting minutes for the past year.

Within three months of appointment, members will receive an orientation provided by the Public Employees Benefits Agency's (PEBA's) executive management team.

Commission members have a formal education program that they are required to attend. The program provides courses and seminars that deliver content specific to investment, funding, and governance-related information.

- Within one year, members must attend education sessions on basic investment and actuarial principles, as well as the Governance course offered by The Stephen J.R. Smith School of Business at Queen's University.
- Within two years, members are to complete the Board Effectiveness Program presented by the International Centre for Pension Management at the Rotman School of Management, University of Toronto.

Commission members who have completed the formal education program are required to attend one educational event annually that is facilitated by an industry-recognized pension and benefits organization. A Commission member who is actively pursuing the formal education program is exempt from the ongoing developmental requirements for members. However, all members are strongly encouraged to attend an educational event.

Conferences and other events attended by Commission members– as part of their ongoing education, provide the Commission with information on the current governance, investment and legal environment affecting pension plans. They also provide opportunities for Commission members to meet with pension experts and trustees from other plans to discuss common issues.

As part of a comprehensive education program, education sessions delivered by industry professionals were provided throughout the year as agenda items during Commission meetings.

Commission members were provided education on Actuarial Work and the Role of the Commission, Development of Funding and Investment Policies, and on Liability Benchmarking within meetings in 2015.

Table 1.2 lists the external education events attended by Commission members to December 31, 2015.

Commission Member	Education
Wayne Steen	Rotman Board Effectiveness Program
Randy Goulden	Rotman Board Effectiveness Program
Jeff McNaughton	Rotman Board Effectiveness Program
Beverly Crossman	Mercer Investment Forum
Harvey Malanowich	Governance, Smith's School of Business
Randy Hurd	ACPM Annual Conference
Rory Griffith	Conference Board of Canada Pension Summit ACPM Annual Conference
Betty Moleski	CPBI Presentation Conference Board of Canada Pension Summit CPBI Regional Conference Governance, Smith's School of Business
Tim Leurer	Governance, Smith's School of Business

Table 1.2

Commission members are reimbursed for expenses incurred while on Commission business, for education costs, and they receive remuneration compensating them for the time necessary to prepare for and to conduct Commission business.

Remuneration is made according to Table 1.3 below.

Table 1.4 lists total Commission expenses for 2015.

Table of Remuneration

	Commission Chair	Commission Member
Per Diem - meetings	$450	$250
Preparation for meeting attended	$450	$250
Per Diem - education	$250	$250
Travel time	$0.30/km	$0.30/km
Course registrations - maximum per year[1]	$5,000	$5,000
Expenses	reimbursement	reimbursement

Table 1.3

† In the year that a member must attend Rotman's Board Effectiveness Program, the member may exceed the maximum as the course fees are greater than the annual maximum. However, the member is not eligible to attend any other education events that are not complementary in that year.

Commission Expenses

Name	Course Registrations	Education Honorariums & Travel Time	Education Expenses	Meeting Honorariums & Travel Time	Meeting Expenses	Total
Wayne Steen, Chair	$6,950.00	$1,614.00	$2,442.72	$9,679.20	$4,391.36	$25,077.28
Randy Hurd, Vice-Chair	$1,640.00	$1,250.00	$2,072.26	$5,917.30	$4,729.34	$15,608.90
Donald McCallum*	$0.00	$0.00	$0.00	$1,835.00	$2,306.60	$4,141.60
Rory Griffith	$3,897.00	$1,750.00	$3,567.55	$4,000.00	$270.00	$13,484.55
Ray Orb*	$0.00	$0.00	$0.00	$2,168.00	$949.93	$3,117.93
Randy Goulden	$6,950.00	$1,560.00	$2,136.44	$4,470.00	$2,455.46	$17,571.90
Betty Moleski	$6,829.08	$3,008.16	$2,333.51	$5,918.40	$3,707.55	$21,796.70
Beverly Crossman	$0.00	$1,000.00	$1,612.68	$3,658.40	$535.96	$6,807.04
Brad Hvidston	$0.00	$0.00	$0.00	$3,460.00	$2,342.92	$5,802.92
Jeff McNaughton	$6,950.00	$1,500.00	$2,401.51	$4,250.00	$0.00	$15,101.51
Tim Leurer**	$4,633.00	$1,575.00	$1,254.11	$2,795.00	$1,510.73	$11,767.84
Harvey Malanowich**	$4,633.00	$1,572.00	$1,230.70	$1,545.50	$690.16	$9,671.36
Total	$42,482.08	$14,829.16	$19,051.48	$49,696.80	$23,890.01	$149,949.53

Table 1.4

* Commission member's term ended in 2015.

** Commission member's term commenced in 2015.

Commission education costs totalled $76,362.72 in 2015.

Contracted Services

The Commission is ultimately responsible for the Plan's administration, communication and investment activities. To discharge these responsibilities, the Commission uses the services of various organizations.

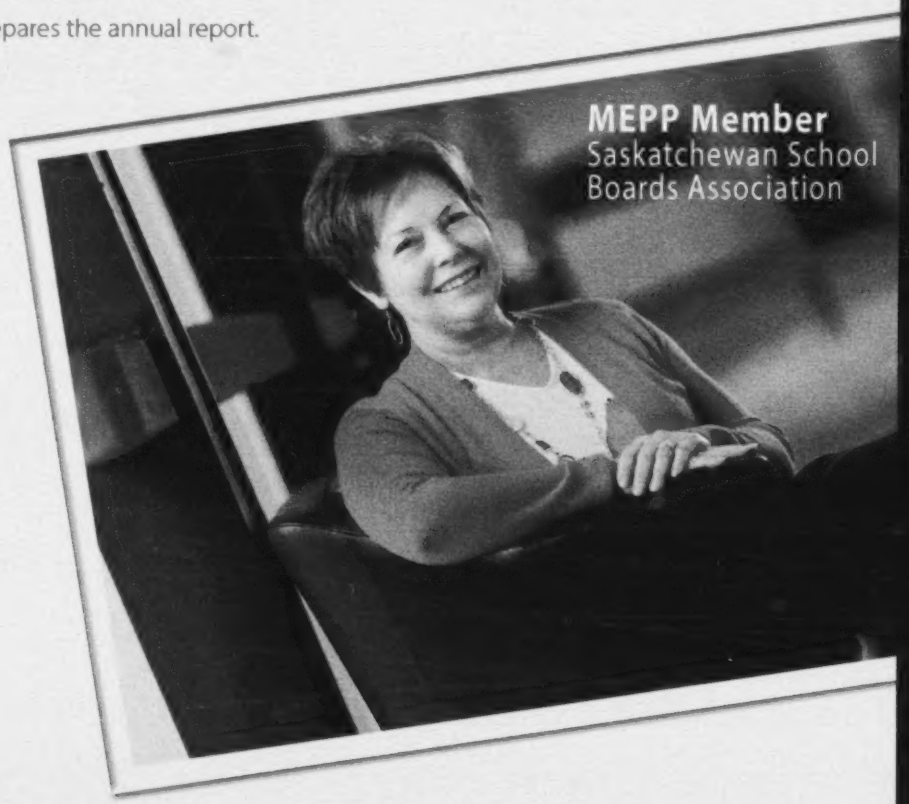
The Commission contracts with the Public Employees Benefits Agency (PEBA) to provide executive management and administrative services for the Plan. PEBA is part of the Ministry of Finance, Government of Saskatchewan, and administers a wide range of pension and benefit plans.

Under contract with the Commission, PEBA:

- maintains all member and accounting records;
- collects and deposits contributions to the Municipal Employees' Pension Fund (the Fund);
- transfers contributions to the custodian of the Fund for investment;
- monitors, administers and assists in the execution of the Plan's investment program in accordance with the investment policy;
- calculates and pays all pension benefits;
- communicates with members and participating employers;
- recommends an actuary as an advisor to PEBA and the Commission, and retains an actuary selected on behalf of the Commission;
- recommends policy regarding calculating rates of interest and implements and calculates the rates of return for the Plan; and
- prepares the annual report.

PEBA is responsible for ensuring that all transactions are made in accordance with ***The Municipal Employees' Pension Act***, ***The Pension Benefits Act, 1992***, and their related regulations.

The Commission retains RBC Investor & Treasury Services as the Plan custodian, Aon Hewitt as the Plan actuary, KPMG as Plan auditor, and Mercer (Canada) Limited as the investment consultant. The Commission also retains the investment managers listed in Table 1.12 on page 32 of this report.



Plan Expenditures and Statistics

Service objectives are to ensure that all payments are made by their due dates and that all supplemental increases for pensioners are processed on a timely basis. Objectives were met in 2015.

Pension Payments

The number of member retirements in 2015 is shown in Table 1.5.

Retirement Comparisons	2015	2014
Normal Retirement	71	74
Early Retirement	176	191
Postponed Retirement	53	54
Temporary Retirement	9	13
Total	**309**	**332**

Table 1.5

Plan Membership

In 2015, Plan membership increased for active members, pensioners and decreased for inactive members as shown in Table 1.6.

Plan Member Comparisons	2015	2014
Active	15,887	15,244
Inactive	3,793	3,867
Pensioners	5,229	5,014
Total	**24,909**	**24,125**

Table 1.6

Income Allocation

In 2015, the Commission allocated interest to members' accounts at the rate of 1.25 per cent for the year.

Supplemental Increases for Pensioners

No supplemental increases were applied in 2015.

Operating Expenditures

Table 1.7 shows plan operating expenditures for the year ended December 31, 2015.

Expenses

	Total Cost (thousands)	(%)
Administration costs / Investment consultant fees	$5,758	35.69
Custodial fees	271	1.68
Investment management fees		
Infrastructure	2,063	12.79
Greystone Managed Investments Inc.	444	2.75
Foyston, Gordon & Payne Inc.	362	2.24
Brandes Investment Partners, LP	549	3.40
BlackRock Asset Management Canada Ltd.	79	0.49
Snyder Capital Management, LP	898	5.57
Pareto Investment Management Ltd.	89	0.55
TDAM Fixed Income Overlay	428	2.65
Investec Asset Management Ltd.	589	3.65
Canso Investment Domestic Portfolio	452	2.80
PIMCO Investments Global Shadow A/C	513	3.18
Wellington Management Global Shadow	559	3.47
CGOV Asset Management	541	3.35
Schroder Investment Management North America Inc.	440	2.73
Vontobel Asset Management, Inc.	1,124	6.96
Private Equity	976	6.05
	$16,135	**100.0**

Table 1.7

PEBA reports measurement against standards to the Commission quarterly. Table 1.8 and Table 1.9 provide measurement results for 2015.

PEBA Service Standards January 1, 2015 to December 31, 2015

	Completed	Number that Met or Exceeded Standard	% that Met or Exceeded Standard	*Standard (Business Days and % Target)	
Statement on Termination (Option Letter)	1,507	1,232	81.8	20	75%
Statement on Death (Active/Deferred) (Option Letter)	42	40	95.2	10	80%
Statement on Death (Pensioners) (Option Letter)	164	150	91.5	10	80%
Payments (includes on termination and death)	1,386	1,238	89.3	10	80%
Payment of New Retirements	283	270	95.4	15	80%
Pension Estimates (Retirement Option Letter)	578	547	94.6	10	90%
Marriage Breakdown Calculations	51	48	94.1	10	75%
Purchase of Service	34	29	85.3	20	80%
Portability Transfer Values	98	91	92.9	30	80%
Total	**4,143**	**3,645**	**88.0**		

Table 1.8

PEBA Periodic Requirements January 1, 2015 to December 31, 2015

	Completed	Number that Met or Exceeded Standard	% that Met or Exceeded Standard	*Standard (Business Days)
Annual Member Statement	1	1	100.0	75
Proposed Annual Budget	1	1	100.0	Annually
Performance Measurement	4	4	100.0	Quarterly
Decisions Affecting Stakeholders	0	0	n/a	1 Month
Newsletter (MEPP Matters)	2	2	100.0	Semi-annually
Total	**8**	**8**	**100**	

* Standard is set within the contract between the Commission and PEBA

Table 1.9

Active Employers

At December 31, 2015, there were 743 employers participating in the Plan.

The distribution of employers by employment sector is shown in Figure 1.1.

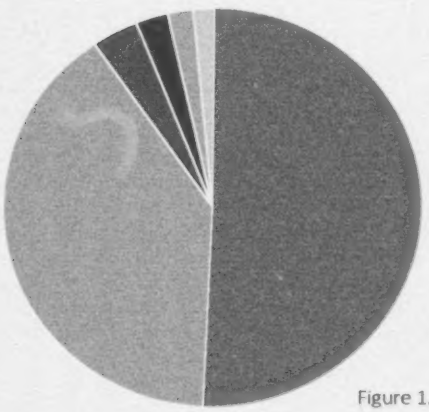


Figure 1.1

50.7%	Towns and Villages (377)
39.8%	Rural Municipalities (296)
3.4%	School Divisions and Boards (25)
2.6%	Other (19)
2.0%	Regional Colleges & Libraries (15)
1.5%	Cities (11)

Active Members by Employer

The distribution of the Plan's active members by employer is shown in Figure 1.2.

The number of active members illustrated differs from the total active members in Table 1.4 on page 14 because some members work for more than one employer.

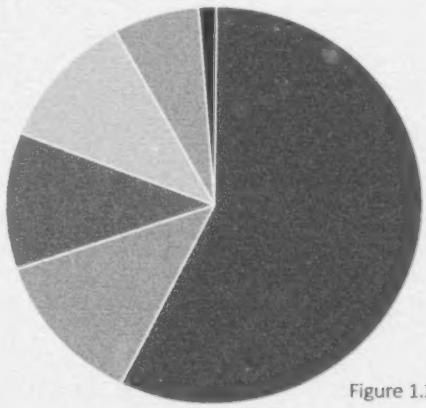


Figure 1.2

58.2%	School Divisions and Boards (9,518)
12.7%	Rural Municipalities (2,077)
11.2%	Towns and Villages (1,825)
9.9%	Cities (1,622)
6.6%	Regional Colleges & Libraries (1,076)
1.4%	Other (228)

Key Performance Indicators

The Plan measures its performance in areas that are critical for success if it is to deliver the services that members expect from the Plan.

MEPP Member
Saskatchewan Association of Rural Municipalities

Key performance indicators allow the Board to monitor the services delivered to Plan members and the tasks that are critical for the Plan's ongoing success.

The Plan measures these critical success factors in four categories:

Customer measures track the performance of key customer-related tasks and how well members tell the Plan it is doing in terms of the information and services it provides members;

Financial measures track the Plan's performance in the areas of administration costs and investment performance;

Internal measures track the Plan's performance in the area of internal administration and governance processes; and

Innovation and Learning measures track the Commission's performance of educational activities supporting its oversight of the Plan's administration and investment activities.

Establishing targets ensures that the Commission is able to review the Plan's performance of key administrative tasks against a standard of practice, to track any changes in performance over time, and to be aware of the areas of strength and weakness in the Plan's administration.

The Commission reviews these key performance indicators on a quarterly basis. A review of the Plan's performance in 2015 is provided in the following pages.

Summary

The Plan has met the majority of its performance targets in 2015.

Service to members is a highlight of this report:

All customer key performance indicators exceeded targets for the year indicating effective communication with members and employers over the year through customer service, written communications and information sessions.

Administration costs were above originally budgeted amounts. A supplementary budget was approved in November and total administration costs were under the amended budgeted amount.

Service provider performance has been of some concern during the year: one of the Plan's key service providers received a less-than-satisfactory evaluation during the year, meaning the Plan did not meet its target for service provider excellence in 2015.

In spite of the few areas of underperformance, consistently high performance in the majority of the areas measured paints an overall picture of timely, efficient, and satisfactory service to Plan members.

Customer

Key Performance Factor	Measure	Target	Result
Provide service within service standards	Member transactions within service standards	More than 80 per cent of transactions meet service standards	Met
Effective Communication	Member satisfaction with information sessions	More than 90 per cent of member survey responses indicate satisfaction with information sessions	Met
Effective Communication	Member satisfaction with quality of communication materials	More than 90 per cent of member survey responses indicate satisfaction with communications	Met
Quality of Customer Service	Member satisfaction with quality of customer service	More than 90 per cent of member survey responses indicate satisfaction with services	Met
Quality of Customer Service	Employer satisfaction with quality of customer service	More than 90 per cent of employer survey responses indicate satisfaction with services	Met

Financial

Key Performance Factor	Measure	Target	Result
Returns greater than benchmarks	Measure of the value-add in relation to the benchmark for the Fund	Rolling four-year rate of return is greater than the Fund benchmark.	Met
Plan Sustainability	Management valuation target funding ratio	Management valuation target funding ratio ensures sufficient assets to pay for future benefits	Met
Supplier Management	Active investment manager investments exceed performance targets	Performance of all active investment managers exceed four-year benchmarks	Not met [1]
Supplier Management	Passive investment manager investment return meet tracking targets	Performance of all passive investment managers meet tracking targets	Met
Performance to Budget	Administration costs are less than budgeted	Administration costs are within budgeted amount	Not Met [2]

[1] Five of the Plan's nine active investment managers with four years of experience exceeded their target in comparison to their benchmarks as of the end of the quarter.

[2] Administration costs were above originally budgeted amounts. A supplementary budget was approved in November and total administration costs were under the amended budgeted amount.

Internal

Key Performance Factor	Measure	Target	Result
Performance to Budget	Strategic initiatives are within budget	Expenditures within budgeted amount	Met
Governance Excellence	Compliance with the CAPSA Guidelines	Board demonstrates 100 per cent compliance with CAPSA guidelines	Met
PEBA Leadership	Satisfactory rating for Executive Management Services	Commission's evaluation of its administrator shows satisfaction with the executive management services provided	Met
Supplier Management	Investment Manager compliance reporting	All required compliance reports are submitted	Met
Supplier Management	Service provider performance is satisfactory	Performance of all service providers is satisfactory	Not Met [3]

[3] The performance of one of the Plan's key service providers was documented as unsatisfactory in some areas during the year. As a result, performance in this area will not meet the Commission's target of satisfactory performance from 100 per cent of key service providers.

Innovation and Learning

Key Performance Factor	Measure	Target	Result
Commission leadership	Commission engages in ongoing education	Commission uses at least 50 per cent of training budget	Met
Commission leadership	Commission engages in ongoing education	At least 80 per cent of Commission undertakes a course	Met

Strategic Initiatives
Risk Management

The strategic business plan sets out goals for the planning period in four major categories.

Within its mandate, the Municipal Employees' Pension Commission is responsible for managing risks that could affect the operation of the Municipal Employees' Pension Plan, the Plan's members and other stakeholders.

Strategic Initiatives

The Commission met in March 2015 for a strategic planning session. This included a review of the values, goals and objectives of the plan as well as a review of the current strategic risks for the Plan. From this planning session, the Strategic Plan for 2015-2017 and the associated initiatives were developed.

Customer Service Excellence	Plan Integrity	Governance Leadership	Transparent Accountability
The Commission is determined to identify, assess, and implement opportunities where appropriate that add value to the communication and service provided to Plan members.	**The Commission is committed to achieving the needs of Plan members and employers through affordable, sustainable Plan benefits and services.**	**The Commission strives to demonstrate leading practices in pension plan governance.**	**The Commission informs the Plan's stakeholders about its strategy, operations and values, as well as how Plan performance is measured, managed and reported.**

The strategic business plan is developed as part of the Commission's comprehensive governance process, which includes regular strategic business planning and risk management planning. It is developed within the context of the Plan's purpose, mission and goals, and the Commission's values of accountability, professionalism, integrity and fairness. The updated strategic business plan considers a number of internal and external factors and a summary of the strategic business plan for 2015-2017 is available on the Plan website.

Customer Service Excellence

The Commission's objectives:

- Provide members with information about the Plan, including individual member benefits and responsibilities, that is easy to understand, relevant, accurate, and timely.
- Support participating employers in their responsibilities.
- Maintain an up-to-date suite of services that meet evolving member needs.

The Commission has a number of ongoing communication strategies that are designed to inform members and employers about the Plan, including:

- A stakeholder consultation process.
- Providing members and employers with access to Retirement Information Consultants and a Customer Focus Coordinator to improve communications.
- Providing additional online forms and communications for employers and members.
- Developing and implementing increased information for employers, including employer bulletins and updates to the employer administration guide.

Activities in 2015

- *A new logo and refreshed brand was unveiled in 2015.*
- *A Request for Proposal (RFP) was tendered for the replacement of the existing pension administration system. The RFP was evaluated and awarded to a vendor. An analysis identifying how the planned system fits the organizational requirements was underway in the last half of 2015.*
- *The Commission identified and assessed whether specific new opportunities would add value for Plan members.*
- *'Your Pension Your Future', a new half-day workshop for members in their 20s and 30s, was implemented in February 2015.*
- *As at December 31, a combined total of 59 RetireWithEase, Your Pension Your Future, and other sessions were presented to 356 members.*

Plan Integrity

The Commission's objectives:

- Assess, manage, and monitor risk in the context of the interdependence that exists between the Plan's assets and liabilities.
- Preserve the accrued benefits for active and retired members and their beneficiaries.
- Provide sustainable benefits that are supported by the contributions required to meet the funding needs of the Plan.

Activities in 2015

- *Assessment of the sustainability of the Plan continued throughout 2015. The Commission worked with its actuary to identify its course of action.*
- *Initiatives in 2015 were tabled for review in 2016.*

Governance Leadership

The Commission's objectives:

- The Commission demonstrates continuous improvement in the Commission's oversight of the Plan.
- Ensure the Plan's business model, including roles and responsibilities of both the Commission and the contracted service providers, is consistent with the Plan's strategy and operations.
- Assist organizations that appoint people to the Commission to understand the Commission's needs when making their appointments.

Activities in 2015

- *The Commission continued to conduct a formal evaluation of the provision of executive management services for the year ended December 31, 2014 and discussed the results. The Commission also identified opportunities to improve the evaluation process for subsequent years.*
- *The Commission discussed the development of materials to assist appointing bodies in their selection of Commission members for appointment. Applicable content and context will be provided to the appointing bodies to assist them without being unnecessarily restrictive.*

Transparent Accountability

The Commission's objectives:

- Members, employees and other stakeholders receive relevant and timely reporting on the performance of the Plan, the Commission and service providers.
- The membership, employers and other stakeholders are informed about how the Commission's strategy, operations and values impact the operation of the Plan.

Activities in 2015

- *Key Performance Indicators were tracked for the full year and a report on the activities is being made available within this report.*
- *The Commission has made a breakdown of the Commission's expenses available within this report.*

Risk Management

Annually, the Commission will conduct a risk management review. This review is designed to identify potential events and trends that may positively or negatively affect the Commission's ability to achieve its strategic goals or maintain its operations. These events and trends are defined as risks.

The risk management process and review ensures that the Commission, along with its administrator, the Public Employees Benefits Agency (PEBA), identifies and evaluates risks, ensures appropriate strategies are in place to manage these risks, and reviews the performance of the risk management strategies for the previous year.

The Risk Management Plan and its annual review ensure that a regular, documented process is in place for the management of the Plan's foreseeable risks. Documenting the rationale for arriving at decisions strengthens accountability and demonstrates due diligence.

Risk Management Philosophy Statement

The Commission is committed to creating and maintaining value for the stakeholders of the Plan. The Plan faces risks as the Commission fulfills this commitment. Therefore, the Commission is responsible for managing all foreseeable risks that could affect the operation of the pension plan and the Plan's stakeholders. Through its risk management process, the Commission identifies, measures, monitors and manages these risks in a manner that is consistent with the Commission's governance model.

Risk: *The potential events and trends that may positively or negatively affect the operation of the Plan, the members or other Stakeholders of the Plan or the attainment of strategic goals.*

Key Risks

In order to assist in the identification and assessment of all foreseeable risks in the Plan, the Commission has identified the following key broad-based risks of the Plan:

Broad-based Risks	(definition of risk)	Key Risks
Strategic Risk	encompasses the potential risks as they relate to communication and service delivery, plan design suitability, plan reputation, plan governance and accountability	Communications and member engagement Governance Risks to members/Plan stemming from members' need for advice/guidance
Financial Risk	relates to the investment, funding, and benefit policies, plan design costs, and demographic considerations	Market risk Funding requirement shortfall Changes in cost Fraud
Regulatory Risk	is associated with non-compliance with legislation, fiduciary obligations and the legal requirements of pension plan management	Non-compliance with legislative requirements Failure to meet fiduciary obligations to Plan members and their beneficiaries
Operational Risk	includes operational emergencies and non-compliance with governance policies	Investment manager performance Errors or omissions Loss of service provider Poor performance of service providers Capacity to deliver services

Table 1.10

The Commission has developed and implemented these strategies and business practices to manage the identified risks:

- The Commission consults with stakeholders periodically. A stakeholder consultation process provides employers and Plan members with the opportunity to consider the affordability of the benefits provided and the contributions needed to fund these benefits.
- The Commission regularly reviews plan design. A formal funding policy as a part of the design enables the Commission to be proactive in managing the financial status of the Plan.
- The Commission is committed to communications that inform members and employers on the Plan.

  The Commission's administrator provides retirement information seminars and individual information to Plan members.

  Information tools include member and employer seminars, employer bulletins and guides, written materials, and online resources such as the Plan website, the Electronic Remittance System and the MORe retirement calculator.
- The Commission receives reports on administrative activities including service standards and a report on key performance indicators quarterly. The Periodic Checklist is a list of major items identified by the Commission that are necessary for the administration of a pension plan. The checklist allows verification that an activity has been carried out. The completed Periodic Checklist is provided to the Commission on a semi-annual basis.
- The Commission strives to demonstrate leading practices in pension plan governance. This includes regular review of its Governance Manual to ensure it is comprehensive and effective.
- The Commission compares its governance against industry benchmarks and other pension plan governing bodies from across Canada which includes receiving a report comparing the administrative costs for public-sector pension plans annually.
- The Commission formally reviews its Strategic Business Plan on a periodic basis.
- The Commission has an Acquisition and Retention of Services policy that details how the Commission is to retain and evaluate service providers.

  The Commission retains service providers who are experts in the responsibilities to which they are assigned with respect to the Plan.
- The Commission evaluates the performance of the executive management services provided by its administrator, investment consultant, investment managers, and custodian at least annually.
- The Commission has a Statement of Investment Policies and Procedures (SIP&P) that outlines the Commission's investment beliefs and provides for risk management through diversification of asset classes, capital markets and investment managers.

  The SIP&P defines the benchmark to which investment performance is measured. The Commission annually reviews the SIP&P and communicates investment performance.
- The Commission ensures initiatives and Plan-related activities are adequately funded through its budgeting process.
- The Commission's administrator has internal controls in place which are reported on annually by the Office of the Provincial Auditor.
- Commission members are required to review and sign the Commission's Code of Conduct and Conflict of Interest Procedures annually.
- The Commission requires that service providers confirm that they maintain disaster recovery plans and adhere to a code of conduct.
- In order to identify and mitigate risks that affect the Plan, the Commission undertakes an annual risk management process.
- The Commission consults with legal counsel and other expert advisors regarding issues on which it is deliberating.
- On a periodic basis, the Commission reviews existing products, services and practices the Plan offers to its members.

Activities Accomplished in 2015

The final periodic checklist and the risk management review for 2015 confirmed that all required activities were completed in 2015. Beyond the required activities, the following items were also accomplished in 2015:

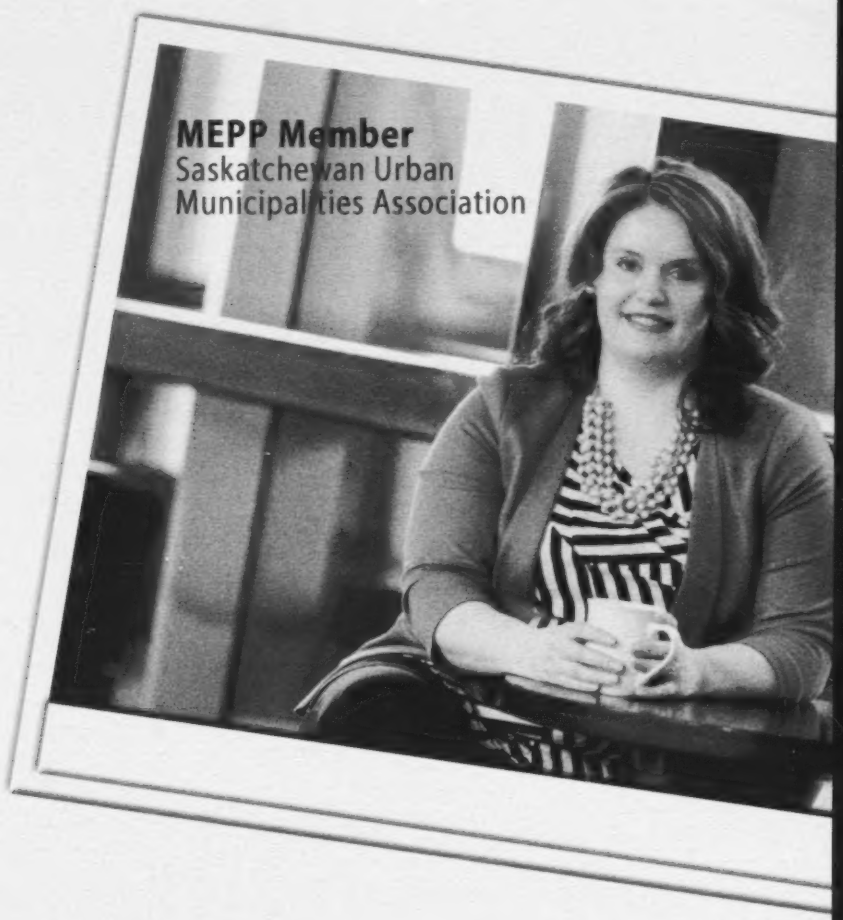
Continue the sustainability review of the Plan:

- Consideration of the report interpreting the data gathered from the stakeholder consultations held in 2014 occurred in 2015.
- The Commission also held discussions with its Actuary regarding plan design, key funding indicators and sustainability of the Plan.

Continue to monitor and review the process of oversight of key service providers:

- The Commission approved the implementation of key performance indicators and reviewed the Key Performance Indicators reports quarterly. The Key Performance Indicators are made available to stakeholders within this report.

Within regular meetings, the Commission received education on actuarial work and the role of the Commission, the development and linking of funding and investment policies, and liability benchmarking.



Investments

In fulfilling its responsibility to prudently invest the Fund's assets, the Commission has adopted an investment policy for the Plan.

Trustees

As trustees of the Fund, the Commission is responsible for prudently investing the Fund's assets.

Investment Policy

The investment policy is set out in the Statement of Investment Policies and Procedures (SIP&P), which the Commission reviews annually.

The SIP&P contains guidelines for investment of Plan assets, and includes:

- investment and risk philosophy;
- asset mix and diversification policy, including portfolio return expectations;
- benchmarks for each investment manager and for the Fund;
- permitted investments and quality guidelines;
- monitoring and control responsibilities, including performance targets;
- compliance reporting and monitoring requirements; and
- conflict of interest guidelines.

Investment Consultant

The Plan's investment consultant is Mercer (Canada) Ltd. In 2015, the investment consultant provided strategic investment guidance, performance monitoring, regular and special project investment consulting, and reports to the Commission. The Commission paid consulting fees of $454,000 in 2015 (Table 1.11).

Investment Managers

The Commission delegates responsibility for investing the Fund assets to professional investment managers. Each manager invests within a specific mandate, as outlined in ***Table 1.12***. Investment managers were paid a total of $10,106,000 in 2015.

Fees Paid for Investment Services in 2015	
Investment Managers (total)	$10,106,000
Investment Consultant	454,000
Custodian	271,000
Total	**$10,831,000**

Table 1.11

Assets by Investment Manager

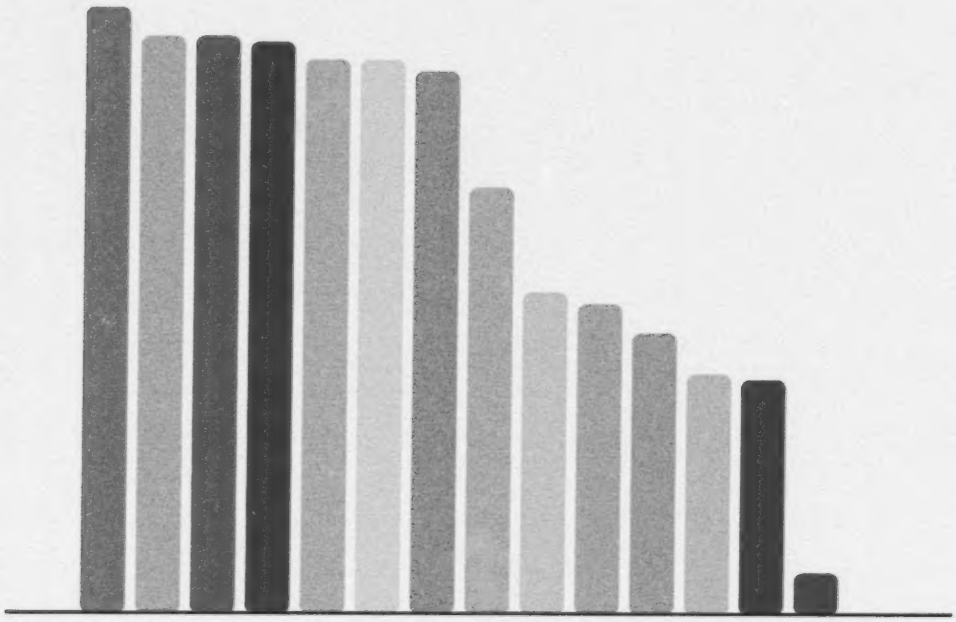


Figure 1.3

10.3% Wellington Management Company, LLP
10.2% Canso Investment Council Ltd.
10.2% PIMCO Canada Corp.
10.1% Investec Asset Management
9.7% Vontobel Asset Management, Inc.
8.7% CGOV Asset Management
7.3% Infrastructure (Various)
6.9% TD Asset Management, Inc.
5.7% BlackRock Asset Management Canada Ltd.
5.5% Greystone Managed Investments Inc.
4.8% Foyston, Gordon & Payne Inc.
4.5% Brandes Investment Partners, LP
4.3% Snyder Capital Management, LP
1.8% Private Equity (Various)

Investment Manager	Mandate
Canso Investment Council Ltd.	Corporate Bonds
PIMCO Canada Corp.	Core Plus Bonds
TD Asset Management, Inc.	Bond Overlay
Wellington Management Company, LLP	Long Bonds Plus
CGOV Asset Management	Canadian Equities
Foyston, Gordon & Payne Inc.	Canadian Equities
BlackRock Asset Management Canada Ltd.	U.S. Equities
Brandes Investment Partners, LP	Non-North American Equities
Investec Asset Management	Global Equities
Vontobel Asset Management, Inc.	Global Equities
Snyder Capital Management, LP	U.S. Small Cap Equities
Pareto Investment Management Ltd.	Currency
Greystone Managed Investments Inc.	Real Estate
Antin Infrastructure Partners	Infrastructure
Global Infrastructure Partners Fund	Infrastructure
Kohlberg Kravis Roberts & Co. L.P.	Infrastructure
Macquarie Asia Infrastructure Management Limited	Infrastructure
SteelRiver Infrastructure Fund North America, LP	Infrastructure
Falcon Investment Advisors, LLC	Private Equity
Great Hill Partners	Private Equity
Lexington Partners L.P.	Private Equity
Lovell Minnick Equity Partners LP	Private Equity
Neuberger Berman Group LLC	Private Equity
New Mountain Capital LLC	Private Equity
Silver Lake Management LLC	Private Equity
Stirling Square Capital Partners LLP	Private Equity
Thompson Street Capital Manager LLC	Private Equity
Vista Equity Partners	Private Equity

Table 1.12

Custodian

The Commission retains RBC Investor & Treasury Services as the custodian of the Plan. The custodian is responsible for:

- safekeeping of assets;
- collection of income;
- settlement of investment transactions; and
- recording and verifying investment transactions.

RBC Investor & Treasury Services received $271,000 in fees in 2015.

Investment Objectives

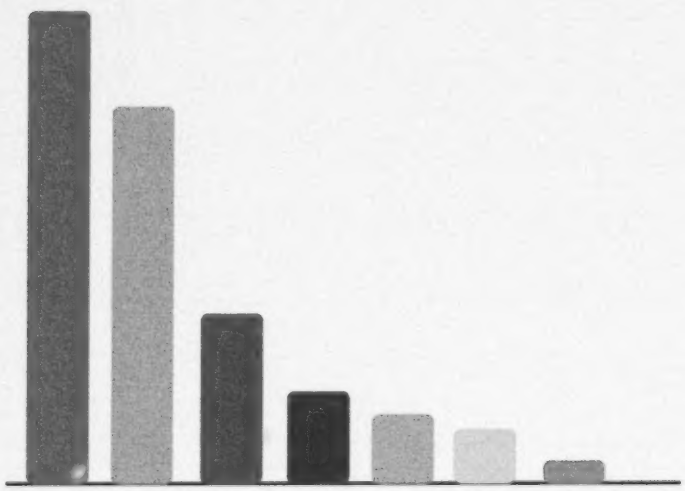
Total Fund

The Fund's primary objective is to grow at a rate which exceeds the growth of the Plan's liabilities. To measure the growth of the Plan's liabilities, a fixed income portfolio that approximates its going-concern pension liabilities behaviour (the liability benchmark) has been established.

To achieve its goal, the Commission has established:

- a long-term strategic asset mix that is reflected by the Plan's benchmark (a standard against which performance is measured); and
- an investment management structure consisting of one or more investment managers in each major asset class.

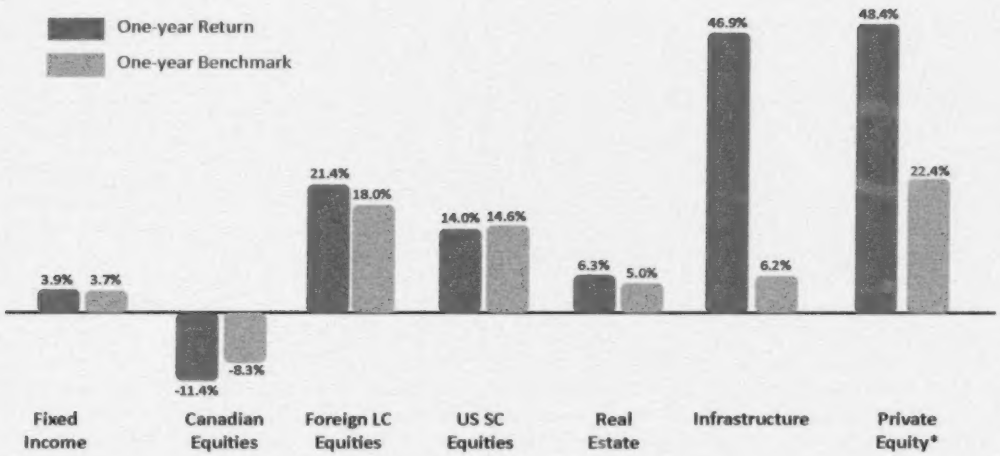
MEPP Asset Mix



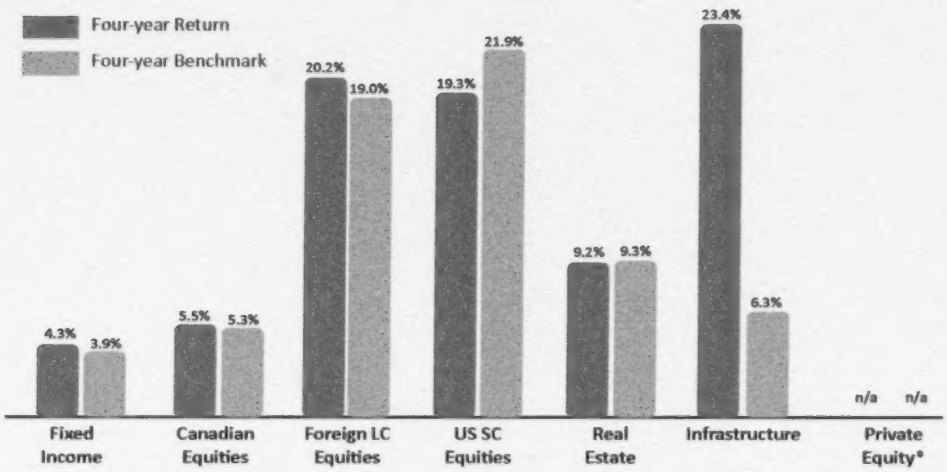
37.6%	Fixed Income
30.0%	Foreign Large Cap Equities
13.5%	Canadian Equities
7.3%	Infrastructure
5.5%	Real Estate
4.3%	U.S. Small Cap Equities
1.8%	Private Equity

Figure 1.4

Performance by Asset Class



* as of September 30, 2015



* as of September 30, 2015

Foreign Currency Investment Manager

Pareto Investment Management Ltd. passively hedges 50 per cent of the Plan's foreign currency exposure within its foreign equities allocation against changes in value of various developed market currencies relative to the Canadian dollar. In 2015 this strategy had an impact of -7.7 per cent on foreign equities exposure, consistent with its benchmark.

Management's Report

To the Members of the Legislative Assembly of Saskatchewan:

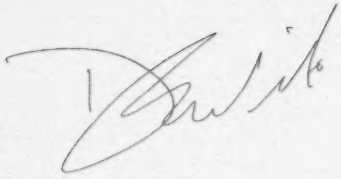
Administration of the Municipal Employees' Pension Plan is presently assigned to the Public Employees Benefits Agency of the Ministry of Finance. Management is responsible for financial administration, administration of funds and managing of assets.

The financial statements which follow have been prepared by management in conformity with Canadian accounting standards for pension plans. Management uses internal controls and exercises its best judgment in order that the financial statements fairly reflect the financial position of the Plan.

The Municipal Employees' Pension Commission reviews and approves the financial statements. In doing so, the Commission has had the opportunity to discuss the statements with management throughout the year.

The provision for annuity benefits and the accrued pension benefits are determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events and require approval by management.

The financial statements have been audited by KPMG whose report follows.



Dave Wild
Associate Deputy Minister
Public Employees Benefits Agency

Regina, Saskatchewan
March 18, 2016

Actuarial Opinion

AON Hewitt

With respect to the Municipal Employees' Pension Plan, I have prepared an actuarial valuation as at December 31, 2014 with the results subsequently extrapolated to December 31, 2015, for the purpose of determining the necessary actuarial information for financial statement reporting purposes in accordance with Section 4600 of the CPA Canada Handbook.

In my opinion, for the purposes of this actuarial valuation and extrapolation:

- The data on which this valuation and subsequent extrapolation are based are sufficient and reliable.
- The assumptions are appropriate.
- The actuarial cost methods, extrapolation methods and valuation methods employed are appropriate.
- The actuarial valuation and extrapolation conform to the requirements of Section 4600 of the CPA Canada Handbook.

Nonetheless, emerging experience differing from the assumptions will result in gains or losses which will be revealed in subsequent valuations. This report has been prepared and this actuarial opinion has been given in accordance with accepted actuarial practice in Canada.

David R. Larsen
Fellow, Society of Actuaries
Fellow, Canadian Institute of Actuaries

February 19, 2016

Municipal Employees' Pension Plan

Financial Statements

Year ended December 31, 2015

KPMG LLP
Hill Centre Tower II
1881 Scarth Street, 20th Floor
Regina Saskatchewan S4P 4K9
Canada

Telephone (306) 791-1200
Fax (306) 757-4703
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To Members of the Legislative Assembly of Saskatchewan

We have audited the accompanying financial statements of the Municipal Employees' Pension Plan, which comprise the statement of financial position as at December 31, 2015, the statements of changes in net assets available for benefits and changes in pension obligations and provision for annuity obligations for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Municipal Employees' Pension Plan as at December 31, 2015, and the changes in its net assets available for benefits and the changes in its pension obligations and its annuity obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Comparative information

The financial statements of the Municipal Employee's Pension Plan as at and for the year ended December 31, 2014 were audited by another auditor who expressed an unmodified opinion on those financial statement on March 20, 2015.

KPMG LLP

Chartered Professional Accountants

March 18, 2016
Regina, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Statement 1

(in thousands)

Year Ended December 31	2015 Defined Benefit	2015 Retirement Annuities	2015 Total	2014 Total
ASSETS				
Investments (Note 4)				
Short-term	$ 29,115	$ 281	$ 29,396	$ 36,958
Bonds	249,605	2,407	252,012	255,786
Equities	531,141	5,122	536,263	612,315
Private equity	37,262	359	37,621	13,582
Infrastructure	152,921	1,475	154,396	80,054
Pooled funds	774,779	7,472	782,251	739,916
Investments under securities lending program	288,648	2,784	291,432	162,380
	2,063,471	19,900	2,083,371	1,900,991
Accounts receivable				
Employees' contributions	2,458	-	2,458	2,931
Employers' contributions	2,458	-	2,458	2,931
Accrued investment income	3,593	35	3,628	3,420
Other receivables	608	6	614	586
	9,117	41	9,158	9,868
Due from General Revenue Fund (Note 6)	6,621	64	6,685	3,176
Cash	48,990	472	49,462	92,552
Total assets	2,128,199	20,477	2,148,676	2,006,587
LIABILITIES				
Accounts payable	3,341	250	3,591	4,288
Currency hedging (Note 5)	15,103	146	15,249	4,211
Provision for annuity obligations (Statement 3, Note 10)	-	16,880	16,880	17,944
Total liabilities	18,444	17,276	35,720	26,443
NET ASSETS AVAILABLE FOR BENEFITS (Statement 2)	2,109,755	3,201	2,112,956	1,980,144
Pension Obligations (Statement 3, Note 9)	1,796,023	-	1,796,023	1,646,142
SURPLUS	$ 313,732	$ 3,201	$ 316,933	$ 334,002

(See accompanying notes to financial statements)

Statement 2

Year Ended December 31	(in thousands) 2015 Defined Benefit	2015 Retirement Annuities	2015 Total	2014 Total
INCREASE IN ASSETS				
Investment income				
Interest	$ 11,192	$ 108	$ 11,300	$ 18,471
Security lending	295	3	298	141
Pooled funds	34,018	328	34,346	4,726
Dividends	25,261	244	25,505	20,135
Infrastructure	3,937	38	3,975	11,949
	74,703	721	75,424	55,422
Change in fair value of investments	89,318	861	90,179	290,180
Contributions				
Employee contributions	46,842	-	46,842	44,929
Employer contributions	46,698	-	46,698	44,839
Reciprocal transfers in	1,153	-	1,153	2,041
Arrears contributions and interest	154	-	154	81
Inter-fund transfer	(254)	254	-	-
	94,593	254	94,847	91,890
Net decrease in provision for annuity benefits (Statement 3, Note 10)	-	1,064	1,064	1,384
Total increase in assets	258,614	2,900	261,514	438,876
DECREASE IN ASSETS				
Transfers and refunds (Note 8)	31,760	-	31,760	26,578
Benefit payments (Note 8)	9,520	-	9,520	6,623
Pension obligation payments	60,849	-	60,849	56,109
Annuities	-	2,817	2,817	2,937
Investment transaction costs	7,548	73	7,621	10,193
Administrative expenses (Note 12)	15,981	154	16,135	14,564
Total decrease in assets	125,658	3,044	128,702	117,004
INCREASE (DECREASE) IN NET ASSETS	132,956	(144)	132,812	321,872
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	1,976,799	3,345	1,980,144	1,658,272
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$ 2,109,755	$ 3,201	$ 2,112,956	$ 1,980,144

(See accompanying notes to financial statements)

Municipal Employees' Pension Plan
Statement of Changes in Pension Obligations and Provision for Annuity Obligations

Statement 3

Year Ended December 31	2015 (in thousands)	2014 (in thousands)
PENSION OBLIGATIONS, BEGINNING OF YEAR	$ 1,646,142	$ 1,471,958
Increase in pension obligations		
Interest on pension obligations	101,731	95,458
Pension obligations accrued	90,589	80,831
Transfers-in	1,153	2,041
Experience loss	865	1,080
Change in assumptions	57,926	84,403
	252,264	263,813
Decrease in pension obligations		
Transfers, refunds and defined pension obligations paid	102,129	89,310
Transfer to provision for annuities	254	319
	102,383	89,629
PENSION OBLIGATIONS, END OF YEAR (Note 9)	$ 1,796,023	$ 1,646,142
PROVISION FOR ANNUITY OBLIGATIONS, BEGINNING OF YEAR	$ 17,944	$ 19,328
Increase in provision for annuity obligations		
Interest on annuity obligations	1,033	1,171
New annuities purchased	254	319
Experience loss	312	-
Change in assumptions	154	527
	1,753	2,017
Decrease in provision for annuity obligations		
Annuities paid	2,817	2,937
Experience gain	-	464
	2,817	3,401
	$ 16,880	$ 17,944

(See accompanying notes to financial statements)

1. Description of the Municipal Employees' Pension Plan

General

The Municipal Employees' Pension Plan (the "Plan") which is domiciled in Regina, Saskatchewan, is comprised of three components: defined benefit, defined contribution benefit and retirement annuities. The following description of the Plan is a summary only. For more complete information, reference should be made to *The Municipal Employees' Pension Act*.

The Municipal Employees' Pension Act (the "Act") provides authority for the Plan. The Act directs that all allowances, payments and refunds under the Act shall be payable out of the Plan in the manner provided in the Act together with all benefits granted under a former Act. The Municipal Employees' Pension Commission (the "Commission") is responsible for holding in trust and investing the monies of the Plan. The Commission's composition and authority to administer the Plan are provided in Section 7 of the Act.

The Plan is registered under *The Pension Benefits Act, 1992* and is required to provide valuations every three years as to whether the Plan has sufficient assets to meet its pension obligations on an on-going basis as well as on a hypothetical wind-up basis. These valuations are filed with the Superintendent of Pensions (the "Superintendent"). If the Plan has insufficient assets, the Act outlines the steps to address the shortfall of assets. The Commission filed its December 31, 2014 valuation with the Superintendent. The fund is required to obtain the next actuarial valuation as at December 31, 2017.

Defined Benefit Component

The Defined Benefit Component became effective July 1, 1973. This Defined Benefit Component is mandatory for permanent employees and optional for some non-permanent employees.

A. Funding

Effective January 1, 2015, employee contributions are 8.15 per cent of salary for general members and 11.35 per cent for police officers and firefighters (2014- 8.15 per cent and 11.35 per cent respectively). Employee contributions are matched by the employer. There are some employee contributions that are not matched by employers, these contributions consist of transfers from other plans and purchase of prior services.

B. Pensions

Employees receive a pension at age 65 for general members and at age 60 for police officers and firefighters, for each year and fractional year of contributory service in the Plan prior to retirement that is determined as:

For service earned before 1990 and service earned after 2000 but before 2006, the number of years of contributory service during these periods times the greater of:

a) 1.8 per cent times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (two per cent for police officers and firefighters); or

b) i) 1.3 per cent of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) two per cent of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

For all other service, the number of years of contributory service for the period times the greater of:

a) 1.5 per cent times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7 per cent for police officers and firefighters); or

b) i) 1.3 per cent of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) two per cent of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

Members who commenced employment on or after January 1, 1993:

For service earned after 2000 but before 2006, the number of years of contributory service during this period times 1.8 per cent times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (two per cent for police officers and firefighters).

For all other service, the number of years of contributory service for the period times 1.5 per cent times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7 per cent for police officers and firefighters).

C. Retirement

Normal retirement is at age 65 for general members and age 60 for police officers and firefighters. Members may retire earlier under certain conditions.

The Plan also provides benefits in the event of termination of employment, death or disability.

D. Surplus

Any surpluses arising in the Plan can be utilized at the discretion of the Commission.

E. Transfers

Subject to lock in provisions of the Plan, transfer of a member's commuted value is payable when a member ceases to be employed.

As the December 31, 2014 actuarial valuation for filing purposes stated a solvency ratio of 86.6 per cent, commuted value transfers out of the Plan are limited to 86.6 per cent of the commuted value calculation. Payment of the remaining transfer deficiency shall occur over the following five-year period.

Defined Contribution Component

The Defined Contribution Component consists of members who made contributions to the Defined Contribution Component in effect prior to July 1, 1973. Members may retire and purchase an annuity at age 65. Members may retire earlier under certain conditions. Upon retirement a member can purchase an annuity from either the Plan or a private insurer based on employee and employer contributions together with the interest thereon. In the event of death prior to retirement, the member's spouse may receive a life annuity or elect to receive a lump-sum payment of employee and employer contributions plus interest. If the member's beneficiary is other than the spouse, a lump-sum payment of employee and employer contributions plus interest is made.

Retirement Annuities Component

If a member elects to purchase an annuity through the Commission, an annuity contract is issued based on the member's balance, current interest rates and annuity tables.

The present value of these annuities are reflected as a liability of the Plan.

Supplementary Benefits

In accordance with the Act, the Commission may grant supplementary benefits to those members receiving pensions and annuities to compensate them for lost purchasing power. The Commission may grant the supplementary benefits as long as the solvency of the entire Plan is not impaired.

Income Taxes

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

2. Basis of Preparation

a. Statement of Compliance

The financial statements for the year ended December 31, 2015 have been prepared in accordance with Canadian accounting standards for pension plans as defined in the CPA Canada Handbook section 4600, *Pension Plans*. For matters not addressed in Section 4600, International Financial Reporting Standards (IFRSs) have been followed.

b. Functional and Presentation Currency

These financial statements are presented in Canadian Dollars, which is the Plan's functional currency, and are rounded to the nearest thousand unless otherwise noted.

3. Significant Accounting Policies

The significant accounting policies are as follows:

a. Basis of Presentation

The Plan has disclosed financial results for its Defined Benefit and Retirement Annuities components separately. The Plan maintains a single investment portfolio and assets were allocated to the retirement annuities component at January 1, 2002 based upon the provision for annuity obligations as at that date. Investment income is split so that it matches the rate of return and operating expenses and the change in fair value have been allocated relative to the assets. These financial statements were authorized and issued by the Commission on March 18, 2016.

b. Investments

Investments are stated at their fair value in the Statement of Financial Position. The change in the fair value of investments at the beginning and end of each year is reflected in the Statement of Changes in Net Assets Available for Benefits.

Fair value of investments is determined as follows:

Short-term investments are valued at cost which, together with accrued investment income, approximates fair value given the short-term nature of these investments.

Bonds are valued at year-end quoted market prices in an active market when available. When quoted market prices are not available, the fair value is based on a valuation technique, being the present value of the principal and interest receivable discounted at the appropriate market interest rates.

Equities are valued at year-end quoted market prices from accredited stock exchanges on which the security is principally traded.

Private equity investments are valued at market values supplied by the private equity investment manager. These market values are based on the latest available private equity manager capital account statements and are adjusted for subsequent cash flows and changes in exchange rates for investments outside Canada.

Infrastructure investments are valued at market values supplied by the infrastructure investment manager. These market values are based on the latest available infrastructure manager statements capital account statements and are adjusted for subsequent cash flows and changes in exchange rates for investments outside Canada.

Pooled-fund investments are valued at the year-end unit value supplied by the pooled-fund administrator, which represent the underlying net assets of the pooled fund at fair values determined using closing bid prices. Real estate pooled-fund underlying assets are valued by third-party appraisals.

Investments in derivative financial instruments, including repurchase agreements and forwards are valued at year-end quoted market prices where available. Where quoted market prices are not available, values are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the position.

Investment transactions are recorded on the trade date.

c. Other Assets and Financial Liabilities

Accounts receivable are classified as loans and receivables and accounts payable are classified as other financial liabilities and are measured at amortized cost. Due to their short-term nature, the amortized cost of these instruments approximates their fair value.

d. Investment Income and Transaction Costs

Investment income, which is recorded on the accrual basis, includes interest income, dividends, pooled-fund income, infrastructure income, private equity income, and security lending income.

Brokers' commissions and other transaction costs are recognized in the statement of changes in net assets available for benefits in the period incurred.

e. Foreign Currency Translation

The fair values of foreign currency denominated investments included in the Statement of Financial Position are translated into Canadian dollars at year-end rates of exchange. Gains and losses from translations are included in the change in fair value of investments.

Foreign currency-denominated transactions are translated into Canadian dollars at the rates of exchange on the trade dates of the related transactions. Realized gains and losses on the sale of investments are included in the change in fair value of investments.

f. Provision for Annuity Obligations

Provision for annuity obligations represents the present value of the retirement annuities underwritten by the Plan and is determined pursuant to an actuarial valuation or extrapolation. Any change in the liability pursuant to the valuation or extrapolation is recognized as an increase or decrease in that year's statement of changes in pension obligations and provision for annuity obligations.

g. Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statement and the recorded amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the valuation of investments, and the provision for annuity obligations and pension obligations. Actual results could differ from these estimates.

h. Future Accounting Policy Changes

Certain new standards, amendments to standards and interpretations, are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these financial statements. In particular, IFRS 9, Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement, and includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and a new general hedge accounting model. The standard is effective for annual periods beginning on or after January 1, 2018. The extent of the impact of adoption of this standard is not known at this time, but is not expected to be material.

4. Investments

Details of significant terms and conditions, exposure to interest rate and credit risks of investments are as follows:

Investments

The carrying values of the Plan's investments are as follows:

	2015	2014
Short-term	$ 29,396	$ 36,958
Bonds	252,012	255,786
Equities	536,263	612,315
Private equity	37,621	13,582
Infrastructure	154,396	80,054
Pooled Funds	782,251	739,916
	$ 1,791,939	$ 1,738,611
Investments under securities lending:		
Equities	$ 229,598	$ 134,825
Bonds	59,333	20,150
Short-term	2,501	7,405
	$ 291,432	$ 162,380
	$ 2,083,371	$ 1,900,991

Security Lending Program

Through its custodian, the Plan participates in an investment security lending program for the purpose of generating fee income. Non-cash collateral of at least 105 per cent of the market value of the loaned securities is retained by the Plan until the loaned securities have been returned (see Securities lending in note 11). The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

Short-Term Investments

These investments may comprise of treasury bills, notes, commercial paper and repurchase agreements. The cash equivalent component of short-term investments held as of December 31, 2015 had an effective interest rate of 0.5 per cent (2014 - 0.9 per cent) and an average term to maturity of 56 days (2014 – 36 days). The Plan's investment policy states that investments must meet a minimum investment standard of "A2/P2" or equivalent rating as rated by a recognized bond rating service. In the prior year, the Government of Canada represented 100 per cent of the total Plan's short-term investments. At December 31, 2015, the Government of Canada is the sole issuer of the Plan's cash equivalent short-term investments. Included in short-term investments is $29.2 million (2014 - $31.0 million) in repurchase agreements.

Bonds

The Plan's investment policy states that bonds must meet a minimum quality standard of BBB as rated by a recognized bond rating service unless otherwise permitted within a specific investment manager mandate. In addition, not more than 10 per cent of its total bond market value may be invested in lower than BBB rated bonds. In 2015 there were 2.23 per cent of segregated bonds (2014 – 2.65 per cent) invested in lower than BBB Bonds.

The market value, coupon rates and effective interest rate to maturity are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

2015 (in thousands)

Years to Maturity	Federal	Foreign Government	Provincial	Municipal	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	$ 2,248	$ -	$ -	$ -	$ 100,337	$102,585	0.00% - 12.20%	2.07%
5 to 10	-	4,847	-	-	50,866	55,713	1.62% - 10.50%	4.99%
Over 10	23,070	-	77,476	436	52,065	153,047	2.75% - 7.56%	4.14%
Market Value	$ 25,318	$ 4,847	$ 77,476	$ 436	$ 203,268	$311,345		

2014 (in thousands)

Years to Maturity	Federal	Foreign Government	Provincial	Municipal	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	$ 5,559	$ -	$ -	$ -	$ 61,403	$ 66,962	1.47% - 12.20%	3.10%
5 to 10	3,513	-	3,683	-	56,541	63,737	1.62% - 10.50%	4.08%
Over 10	17,144	2,595	75,344	441	49,713	145,237	2.75% - 7.56%	4.16%
Market Value	$26,216	$ 2,595	$ 79,027	$ 441	$ 167,657	$275,936		

All foreign bonds are reported in Canadian dollars.

Equities

The Plan's investment policy states that an investment in a single corporation shall not exceed 10 percent of the total market value of the Plan assets at time of purchase.

In addition, the investment policy allows between 19 per cent and 41 per cent of the Plan to be invested in foreign public equities, including those held in pooled funds. As at December 31, 2015 the Plan held 23.06 per cent (2014 – 23.64 per cent) of the Plan's total investments in segregated foreign equities and 11.20 per cent (2014 – 11.55 per cent) of the Plan's total investments in pooled foreign equity funds. Segregated foreign equities are comprised of 64.27 per cent (2014 – 62.25 per cent) in U.S. equities and 35.73 per cent (2014 – 37.75 per cent) in Non-North American equities.

The Plan's equities have no fixed maturity date and are not exposed directly to interest rate risk. The average effective dividend rate is 2.83 per cent (2014 – 2.66 per cent).

Private Equities

Private equity investments are made through limited partnership arrangements. The investments represent partial equity ownership in entities that are not traded and priced in stock exchanges. Future commitments are due on demand and are based on the needs of the various partnerships the Plan has entered into. Liquidity requirements of meeting the future commitments are met through income generated from investment, holdings in pooled funds and investments in liquid assets traded on the active market which can be easily sold and converted into cash.

The Plan's private equity investments consist of the following:

	(in thousands)	
	2015	2014
Falcon Strategic Partners Fund IV	$ 5,311	$ 3,816
Neuberger Berman Secondary Opportunities Fund III	5,523	2,702
Silver Lake Partners Fund IV	1,378	838
Vista Equity Partners Fund V	4,919	1,789
New Mountain Partners Fund IV	5,645	1,625
Great Hill Equity Partners Fund V	7,100	2,811
Stirling Square Partners Fund III	3,036	1
Lovell Minnick Equity Partners Fund IV	2,546	-
Lexington Capital Partners Fund VIII	2,163	-
	$ 37,621	$ 13,582

The Plan's investment policy limits private equity investments from a minimum of one per cent to a maximum of eight per cent of the Plan's assets. As of December 31, 2015 the Plan's private equity investments were 1.81 per cent (2014 – 0.72 per cent) of the Plan investments.

Falcon Strategic Partners Fund IV is a limited partnership formed to invest in North American private companies. As at December 31, 2015 the Plan was committed to a further investment in this limited partnership of up to $2.2 million in Canadian funds.

Neuberger Berman Secondary Opportunities Fund III is a limited partnership formed to invest in North American private companies. As at December 31, 2015 the Plan was committed to a further investment in this limited partnership of up to $9.2 million in Canadian funds.

Silver Lake Partners Fund IV is a limited partnership formed to invest in North American private companies. As at December 31, 2015 the Plan was committed to a further investment in this limited partnership of up to $2.4 million in Canadian funds.

Vista Equity Partners Fund V is a limited partnership formed to invest in U.S. private companies. As at December 31, 2015 the Plan was committed to a further investment in this limited partnership of up to $2.3 million in Canadian funds.

New Mountain Partners Fund IV is a limited partnership formed to invest in North American private companies. As at December 31, 2015 the Plan was committed to a further investment in this limited partnership of up to $8.5 million in Canadian funds.

Great Hill Equity Partners Fund V is a limited partnership formed to invest in U.S. private companies. As at December 31, 2015 the Plan was committed to a further investment in this limited partnership of up to $6.7 million in Canadian funds.

Stirling Square Partners Fund III is a limited partnership formed to invest in European private companies. As at December 31, 2015 the Plan was committed to a further investment in this limited partnership of up to $7.2 million in Canadian funds.

Lovell Minnick Equity Partners Fund IV is a limited partnership formed to invest in U.S. private equity. As at December 31, 2015 the Plan was committed to a further investment in this limited partnership of up to $10.9 million in Canadian funds.

Lexington Capital Partners Fund VIII is a limited partnership formed to invest in worldwide private companies. As at December 31, 2015 the Plan was committed to a further investment in this limited partnership of up to $12.0 million in Canadian funds.

Falcon Strategic Partners Fund V is a limited partnership formed to invest in North American private equity. As at December 31, 2015 the Plan was committed to an investment in this limited partnership of up to $13.8 million in Canadian funds. No investment in assets have been made as at December 31, 2015.

Thompson Street Capital Partners Fund IV is a limited partnership formed to invest in U.S. private equity. As at December 31, 2015 the Plan was committed to an investment in this limited partnership of up to 13.8 million in Canadian funds. No investment in assets have been made as at December 31, 2015.

Private equity managers utilize an internal valuation policy to establish a market value for the underlying assets within their portfolios. This policy outlines that any marketable assets within the portfolio will be valued at the price on the securities exchange. Non-marketable securities will be subject to professional judgment and may take into account several factors such as:

- Market conditions
- Purchase price
- Estimated liquidation value
- Third-party transactions in the private market
- Present value of expected future cash flows
- Present value of anticipated sale or flotation when asset is soon to be divested

The above factors involve various assumptions. Changes in the underlying assumptions will have an impact on the market value of the investments.

Infrastructure Investments

Infrastructure investments are made through limited partnership arrangements. Advances are made to the limited partnerships, some of which are used to select and provide management support to the invested companies. The investments represent ownership in entities that invest in infrastructure assets. Future commitments are due on demand and are based on the needs of the various partnerships the Plan has entered into. Liquidity requirements of meeting the future commitments are met through income generated from investment, holdings in pooled funds and investments in liquid assets traded on the active market which can be easily sold and converted into cash.

The Plan's infrastructure investments consist of the following:

	(in thousands)	
	2015	2014
SteelRiver North American Infrastructure Fund I	$ 52,478	$ 38,126
Global Infrastructure Partners Fund I	30,463	19,821
Global Infrastructure Partners Fund II	26,352	10,315
Antin Infrastructure Partners Fund II	27,718	11,792
Kohberg Kravis Roberts Global Infrastructure Fund II	5,836	-
Macquarie Asia Infrastructure Fund	11,549	-
	$ 154,396	$ 80,054

The Plan's investment policy limits infrastructure investments from a minimum of four per cent to a maximum of 13 per cent of the Plan's assets. As of December 31, 2015 the Plan's infrastructure investments were 7.41 per cent (2014 – 4.22 per cent) of the Plan investments.

SteelRiver North American Infrastructure Fund I is a limited partnership formed to invest in North American infrastructure projects. As at December 31, 2015 the Plan was committed to a further investment in this limited partnership of up to $5.7 million in Canadian funds.

Global Infrastructure Partners Fund I is a limited partnership formed to invest in worldwide infrastructure projects. As at December 31, 2015 the Plan was committed to a further investment in this limited partnership of up to $7.1 million in Canadian funds.

Global Infrastructure Partners Fund II is a limited partnership formed to invest in worldwide infrastructure projects. As at December 31, 2015 the Plan was committed to a further investment in this limited partnership of up to $14.1 million in Canadian funds.

Antin Infrastructure Partners Fund II is a limited partnership formed to invest in worldwide infrastructure projects. As at December 31, 2015 the Plan was committed to a further investment in this limited partnership of up to $16.2 million in Canadian funds.

Kohberg Kravis Roberts Global Infrastructure Fund II is a limited partnership formed to invest in worldwide infrastructure projects. As at December 31, 2015 the Plan was committed to a further investment in this limited partnership of up to $43.0 million in Canadian funds.

Macquarie Asia Infrastructure Fund is a limited partnership formed to invest in Asian infrastructure projects. As at December 31, 2015 the Plan was committed to a further investment in this limited partnership of up to $23.1 million in Canadian funds.

Infrastructure managers utilize an internal valuation policy to establish a market value for the underlying assets within their portfolios. This policy outlines that any marketable assets within the portfolio will be valued at the price on the securities exchange. Non-marketable securities will be subject to professional judgment and may take into account several factors such as:

- Market conditions
- Purchase price
- Estimated liquidation value
- Third-party transactions in the private market
- Present value of expected future cash flows
- Present value of anticipated sale or flotation when asset is soon to be divested

The above factors involve various assumptions. Changes in the underlying assumptions will have an impact on the market value of the investments.

Pooled Funds

The Plan's investment policy limits pooled-fund holdings to not more than 10 per cent of the market value of the individual pooled fund. Exceptions to the 10 per cent limit are allowed if provision has been made to transfer securities in kind when units of the pooled fund are sold. At December 31, 2015, there were provisions in place for all the Plan's pooled funds.

The Plan's pooled funds are comprised of:

Pooled Fund	Units Held (in thousands)		% of Total Units Outstanding		Market Value (in thousands)	
	2015	2014	2015	2014	2015	2014
U.S. Equity						
BlackRock U.S. Equity Fund	5,634	8,328	2.87%	3.15%	$120,377	$146,315
Non-North American Equity						
Brandes Non-North American Equity Fund	6,179	6,034	24.29%	24.38%	95,298	81,726
Vontobel India Fund	80	109	0.56%	0.79%	15,872	18,241
Bonds						
Wellington Canada Long Bond Plus Portfolio	18,680	16,773	26.94%	25.60%	218,579	196,121
PIMCO Canada CorePLUS Bond Trust	2,059	1,782	9.60%	8.47%	216,557	188,826
Real Estate						
Greystone Real Estate Fund	1,004	1,004	2.00%	2.10%	115,568	108,687
					$782,251	$739,916

Pooled-fund investments are governed by the policies for each fund. Financial derivatives are permitted within the pooled funds as outlined below:

BlackRock U.S. Equity Fund may contain equity index futures, to replicate the return of the S&P 500 Composite Index.

Brandes Non-North American Equity Fund may employ the use of foreign exchange contracts to hedge against changes in exchange rates and depositary receipts to substitute for direct investment in the underlying security.

Vontobel India Fund does not use derivative instruments

Wellington Canada Long Bond Plus Portfolio may buy and sell exchange-traded and over-the-counter derivative instruments, including interest rate, credit, index, and currency futures, currency, interest rate, total rate of return, and credit default swaps, currency, bond, and swap options, deliverable and non-deliverable currency forward contracts, and "to-be-announced" securities. The portfolio may also hold short positions in these instruments for hedging purposes, and in pursuit of the Portfolio's investment objective.

PIMCO Canada CorePLUS Bond Trust may seek to obtain market exposure to the securities in which it primarily invests by using derivative instruments such as futures contracts, swap agreements or options, or by entering into forward transactions or by using other investment techniques.

Investments in real estate consist of Canadian commercial property held directly by the Greystone Real Estate Fund. The market appraisals used in valuing the real estate involve various assumptions. Changes in the underlying assumptions will have an impact on the market value of the investments.

Fair Value

The Plan has classified its investments using a hierarchy that reflects the significance of the inputs used in determining their fair value.

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments values using inputs that are not based on observable market data are classified as Level 3.

The following table classifies the Plan's required financial instruments within a fair value hierarchy:

2015*
(in thousands)

	Level 1	Level 2	Level 3	Total
Bonds	$ -	$ 311,345	$ -	$ 311,345
Pooled funds	-	666,683	115,568	782,251
Short-term	31,897	-	-	31,897
Equities	765,861	-	-	765,861
Private Equity	-	-	37,621	37,621
Infrastructure	-	-	154,396	154,396
Total	$ 797,758	$ 978,028	$ 307,585	$2,083,371

*No investments were transferred between levels during the year.

	Fair Value measurements using level 3 inputs			
	Infrastructure	Real Estate Pooled Fund	Private Equities	Total
Balance at December 31, 2014	$ 80,054	$ 108,687	$ 13,582	$ 202,323
Purchases	38,524	-	23,731	62,255
Sales/ return of capital	(2,248)	-	(5,046)	(7,294)
Gains (losses)				
Realized	485	-	404	889
Unrealized	37,581	6,881	4,950	49,412
Balance at December 31, 2015	$ 154,396	$ 115,568	$ 37,621	$ 307,585

2014
(in thousands)

	Level 1	Level 2	Level 3	Total
Bonds	$ -	$ 275,936	$ -	$ 275,936
Pooled funds	-	631,229	108,687	739,916
Short-term	44,363	-	-	44,363
Equities	747,140	-	-	747,140
Private Equity	-	-	13,582	13,582
Infrastructure	-	-	80,054	80,054
Total	$ 791,503	$ 907,165	$ 202,323	$ 1,900,991

5. Derivatives

Derivative financial instruments are financial contracts whose values are derived from changes in underlying assets, interest or currency exchange rates. The Plan objective is to achieve an overall Plan duration that approximates the duration of the Plan liabilities on a going-concern basis.

At December 31, 2015 the Plan held the following derivatives:

Forward Contracts

The Plan has entered into foreign exchange forward contracts to hedge some of its foreign currency exposure in its foreign equities. Foreign exchange forward contracts are obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement on a predetermined date in the future.

The Plan uses a passive hedging strategy with an applied hedge ratio of 50 per cent of the underlying portfolio. The objective of the passive currency hedge is to provide partial protection of the base currency value of foreign equities against a decline in value of the non-base currencies. The following summarizes the Plan's use of foreign currency forward exchange contracts within the passive currency hedging strategy:

FOREIGN EXCHANGE FORWARD CURRENCY CONTRACTS

(in thousands)

	2015			2014		
Currency	Notional Value*	Gain (Loss)	Net Exposure	Notional Value*	Gain (Loss)	Net Exposure
AUD	$ 1,951	$ (132)	49.0%	-	-	-
CHF	13,520	(612)	50.0%	$ 16,531	$ 186	50.0%
DKK	1,908	(101)	50.0%	1,521	18	49.2%
EUR	22,089	(1,166)	50.0%	25,014	304	50.0%
HKD	9,176	(423)	50.0%	3,935	(81)	50.0%
JPY	15,651	(1,014)	50.0%	18,932	354	50.0%
MXN	1,850	(32)	50.0%	723	47	50.0%
NOK	-	-	-	937	77	50.0%
GPB	25,344	(314)	50.0%	29,950	(35)	50.0%
SEK	679	(49)	48.0%	733	26	50.0%
USD	254,935	(11,438)	50.0%	239,490	(5,109)	50.0%
ZAR	1,153	32	50.2%	995	2	48.3%
		$ (15,249)			$ (4,211)	

*Notional value represents the contractual amount to which a rate or price is applied in order to calculate the exchange rate of cash flows, and is therefore not recorded on the financial statements.

Based on the rates of exchange as of December 31, 2015, the forward contracts are in a net loss position of $15.2 million (2014 – loss of $4.2 million). The foreign currency forward exchange contracts are short-term in duration and all current contracts as of December 31, 2015 have a maturity date of less than one year.

Repurchase Agreements

A repurchase agreement, also known as a repo, is a contract entered into between two counterparties to sell securities together with an agreement for the seller to buy back the securities at a later date. At December 31, 2015, the Plan has entered into repurchase agreements with a notional value of $969 million (2014 - $912 million) and a fair value of $29.2 million (2014 - $31.03 million). This amount is included in short-term investments on the Statement of Financial Position. The repurchase agreements have a term to maturity of less than one year. The amount of bonds pledged for collateral is $96.5 million (2014 - $92 million). The amount of collateral required is based on the notional value of the repurchase agreements and may fluctuate with the notional value. The investment in repurchase agreements is available as additional margin. No specific collateral is pledged for the repurchase agreement exposure as the investment is not leveraged. Collateral may be pledged to the Plan if the market value of the repurchase agreements changes significantly.

6. Due from General Revenue Fund

The Plan's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

Earned interest is calculated and paid by the General Revenue Fund on a quarterly basis using the Government's thirty- day borrowing rate and the Plan's average daily bank account balance. The Government's thirty-day borrowing rate for 2015 was 0.65 per cent (2014 – 0.96 per cent).

7. Earnings Allocation to Members

Interest is allocated annually to the individual member's account balances in accordance with the provisions of the governing legislation. At December 31, 2015, an interest rate of 1.25 per cent (2014 – 19.38 per cent) was applied.

8. Transfers, Refunds and Benefit Payments

	(in thousands) 2015	2014
Transfers to other retirement plans	$ 479	$ 544
Transfer to other retirement vehicles	20,838	18,235
Withdrawals with interest	10,443	7,799
Total Transfers and Refunds	$ 31,760	$ 26,578
Lump sum payments to estates	3,787	1,693
Payments in lieu of annuities	5,733	4,930
Total Benefit Payments	9,520	6,623
Total Transfers, Refunds and Benefit Payments	$ 41,280	$ 33,201

9. Pension Obligations

The actuarial present value of pension obligations for the Defined Benefit Component of the Plan was determined using the projected benefit method prorated on service and management's best estimate assumptions of future investment performance, salary escalation, inflation, and future pension indexing.

An actuarial valuation for management purposes was performed as at December 31, 2014 by AON Hewitt and they have extrapolated the results of that valuation to December 31, 2015 with interest, estimated service accruals and actual obligation payments for the purposes of these financial statements.

An actuarial valuation for filing and funding purposes was performed as at December 31, 2014 by AON Hewitt and filed with the regulatory authorities. The next valuation to be filed will be required effective December 31, 2017.

The pension liability is based on a number of assumptions about future events including interest rates, rate of salary increases, inflation, mortality, retirement rates and termination rates. The major assumptions used in determining the actuarial present value of pension obligations for the Defined Benefit Component of the Plan are:

	2015	2014
Interest rate	6.0%	6.2%
Salary escalation	3.0%	3.5%
Inflation	2.25%	2.5%
Indexation of pensions	none assumed	none assumed
Mortality	CPM 2014 Private at 115% for males and 100% for females (projected generationally)	CPM 2014 Private at 115% for males and 100% for females (projected generationally)

Actual rates may vary significantly from the long-term assumptions used. The following illustrates the effect of changing certain assumptions from the assumed rates of salary of three per cent, interest rate of six per cent, indexing on pre-1999 benefits of zero per cent, and indexing on post-1998 benefits of zero per cent. The changes in assumptions are independent of one another.

	Effect on Pension Obligation Liability					
	Salary		Interest Rate		Pension Indexing (pre 1999)	Pension Indexing (post 1998)
Assumptions	2.0%	4.0%	5.0%	7.0%	1.0%	1.0%
(Decrease) Increase	(2.9%)	3.2%	14.5%	(11.5%)	3.3%	6.8%

Because the Plan has a solvency deficiency, there is a requirement for a solvency deficiency holdback to be withheld from payouts of commuted value for a period of five years. Solvency deficiency holdbacks owing as of December 31, 2015 are a total of $13.0 million (2014 - $9.6 million).

10. Provision for Annuity Obligations

The actuarial present value of the provision for annuity obligations was determined using management's best estimate of future investment performance and future pension indexing. Aon Hewitt performed an actuarial valuation for management purposes as at December 31, 2014 and they have extrapolated the results of that valuation to December 31, 2015 with interest and actual benefit payments.

An actuarial valuation for filing purposes was performed as at December 31, 2014 by Aon Hewitt and filed with the regulatory authorities. The next valuation to be filed will be required effective December 31, 2017.

The actuarial valuation was based on a number of assumptions about future events including interest rates, pension indexing (for members who elected indexed annuities), and mortality as follows:

	2015	2014
Interest Rate	6.0%	6.2%
Indexation of Pensions	2.25%	2.5%
Mortality	CPM 2014 Private at 115% for males and 100% for females (projected generationally)	CPM 2014 Private at 115% for males and 100% for females (projected generationally)

The actual rates may vary significantly from the assumptions used. The following illustrates the effect of changing certain assumptions from the assumed interest rate of six per cent and pension indexing of 2.25 per cent. The changes in assumptions are independent of one another.

	Effect on Provision for Annuity Obligations			
	Interest Rate		Pension Indexing	
Assumptions	5.0%	7.0%	1.25%	3.25%
(Decrease) Increase	5.7%	(5.1%)	(0.6%)	0.7%

In the future, increases on non-indexed annuities will be granted to the extent that investment earnings exceed a threshold and to the extent that the assets will support it. As there is currently no surplus available, the liabilities for non-indexed annuities do not reflect any future indexing.

The cash outflow to pay the required annuity obligation is calculated using the above assumptions. The cash outflows in the next five years would be $10.7 million, in the next 10 years $17.4 million and in the next 30 years $24.5 million.

11. Financial Risk Management

The nature of the Plan's operations results in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Plan's investments. These financial risks are managed by having an investment policy, which is approved annually by the Commission. The investment policy provides guidelines to the Plan's investment managers for the asset mix of the portfolio regarding quality and quantity. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. Derivatives are allowed within the Plan to hedge against losses and substitute for direct investment. Public Employees Benefits Agency monitors compliance and reports on exceptions to the Commission through the quarterly Administration Reports.

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which it is exposed at December 31, 2015 is limited to the carrying value of the financial assets summarized as follows:

	(in thousands)	
	2015	2014
Cash	$ 49,462	$ 92,552
Accounts receivable	9,158	9,868
Fixed income investments[1]	343,242	320,299
Due from the General Revenue Fund	6,685	3,176
Equities under security lending	229,598	134,825

[1]Includes short-term investments and bonds, including those under security lending, and derivatives.

Accounts receivable are made up of employee and employer contributions receivable, accrued investment income, and other receivables. Employee and employer contributions receivable are generally received in less than 30 days. Accrued investment income is received on the next scheduled payment date, generally either annually or semi-annually. Proceeds from the sale of an investment will normally be received three days after the trade date.

Credit risk within investments is primarily related to short-term investments and bonds. It is managed through the investment policy that limits fixed term investments to those of high credit quality (minimum rating for bonds, BBB unless otherwise permitted within specific investment manager mandate, and for short-term investments is A2/P2) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for bonds are as follows:

	(In thousands)			
	2015		2014	
Credit Rating	Fair Value	Makeup of Portfolio (%)	Fair Value	Makeup of Portfolio (%)
AAA	$ 62,836	20.18	$ 48,944	17.74
AA	85,054	27.32	58,639	21.25
A	76,922	24.71	98,773	35.80
BBB	79,576	25.56	62,257	22.56
BB	6,957	2.23	7,323	2.65
B	-	-	-	-
Unrated	-	-	-	-
Total	$311,345	100.00	$275,936	100.00

Within bond investments, there are no holdings from any one issuer (other than the Government of Canada or a Canadian province) over 6.76 per cent (2014 – 5.14 per cent) of the market value of the combined bond and short-term investment portfolios. No one holding of a province is over 9.66 per cent (2014 – 10.11 per cent) of the market value of the bond portfolio.

The Plan is also subject to credit risk through its use of derivative contracts. The contracts are entered into between the Plan and approved counterparties. The credit risk is mitigated by limiting counterparties to specific entities.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Plan is exposed to changes in interest rates in its fixed income investments, including short-term investments and bonds. Duration is a measure used to estimate the extent market values of fixed-income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase in interest rates would decrease net assets available for benefits and surplus by $220 million at December 31, 2015 (2014- $192 million); representing 12.7 per cent of the $1.7 billion fair value of fixed-income investments, of which $969 million (2014 - $912 million) is included in Repurchase Agreements – see Note 5. Conversely, a decrease in interest rates of 100 basis points would increase net assets available for benefits and surplus by $220 million at December 31, 2015 (2014 - $192 million); representing 12.7 per cent of the $1.7 billion fair value of fixed income investments.

The Plan has implemented a fixed income overlay strategy to manage interest rate exposure. This overlay creates an asset-liability duration match which neutralizes the market value impact of interest rate shocks. Repurchase agreements have been transacted as a means to position duration of assets to parallel the duration (or interest rate sensitivity) of Plan liabilities.

Foreign exchange

The Plan is exposed to changes in the U.S./Canadian dollar exchange rate through its U.S. denominated investments and investment in private markets (includes private equity and infrastructure). Also, the Plan is exposed to non-North American currencies through its investment in non-North American equity pooled funds and investment in private markets.

The exposure to both U.S. public equities and non-North American public equities, including the pooled equity funds, is limited from a minimum of 19 per cent to a maximum of 41 per cent of the market value of the total investment portfolio. At December 31, 2015, the Plan's exposure to U.S. equities was 21.5 per cent (2014 – 21.7 per cent) and its exposure to Non-North American equities was 11.9 per cent (2014 – 13.6 per cent).

In addition, at December 31, 2015 the Plan's exposure to private markets was 9.2 per cent (2014 – 4.9 per cent).

At December 31, 2015, a 10 per cent change in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $40.6 million (2014 - $31.0 million) change in the net assets available for benefits. A 10 per cent change in the Canadian dollar versus the Non- North American currencies would result in approximately a $14.6 million (2014 - $13.4 million) change in net assets available for benefits.

The Plan's exposure to exchange rate risk resulting from the purchase of goods and services is not considered material to the operations of the Plan. The Plan has mitigated its exposure to foreign exchange through the use of derivatives as explained in Note 5. As at December 31, 2015, the Plan's exposure net of derivatives is $545 million (2014 – $435 million). A 10 per cent change in the exchange rate would equate to a net change of $54.5 million (2014 – $43.5 million).

Equity prices

The Plan is exposed to changes in equity prices in Canadian, U.S. and non-North American markets. Equities comprise 47.0 per cent (2014 – 49.8 per cent) of the carrying value of the Plan's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee represents greater than 10 per cent of the market value of the Plan. As well, no one holding represents more than 30 per cent of the outstanding share issue of any corporation.

The following table indicates the approximate change that could be anticipated for both the increase and decrease in net assets available for benefits based on changes in the Plan's benchmark indices at December 31, 2015:

	(in thousands)	
	10% increase	10% decrease
S&P/TSX Composite Index	$ 28,891	$ (28,891)
S&P 500 Index	45,547	(45,547)
MSCI EAFE Index	25,333	(25,333)

Securities lending

At December 31, 2015, no Plan assets have been deposited or pledged as collateral as part of the securities lending strategy. As part of the Plan's securities lending strategy, collateral has been pledged to the Plan by various counterparties for securities out on loan to the counterparties. At December 31, 2015, the total amount of collateral pledged to the Plan amounted to $306 million (2014– $170 million). Security lending obtains collateral of at least 105 per cent of the market value of the securities lent. Such loans must be secured by readily marketable government bonds, treasury bills and/or letters of credit, discount notes and banker's acceptances of Canadian chartered banks.

Private Equity Risk

Risk in private equity investments is managed through diversification across sectors and geographic regions. Adverse impacts in any one sector of the market or geographic location are minimized by having holdings diversified across sectors, geographic location and investment size.

Infrastructure Investment Risk

Risk in infrastructure investments is managed through diversification across sectors and geographic regions. Adverse impacts in any one sector of the market or geographic location are minimized by having holdings diversified across property type, geographic location and investment size.

Real Estate Risk

Risk in real estate investments is managed through diversification across geographic location within Canada and property type. Adverse impacts in any one geographic location are minimized by having holdings in other locations and property types.

Liquidity risk

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. Accounts payable are due within one year.

The Plan's future obligations include the Plan's accrued pension obligation and other contracts the Plan may enter that give rise to commitments of future outflows of cash. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions and by investing in liquid assets that are easily sold and converted into cash.

12. Administrative Expenses

The annual operating expenditures associated with the Plan's administration are paid to the Public Employees Benefits Agency Revolving Fund except for custodial fees and investment management fees, which are paid directly.

(in thousands)

	2015		2014	
	Budget (unaudited)	Actual	Budget (unaudited)	Actual
Audit fees	$ 67	$ 96	$ 85	$ 62
Actuarial fees	158	152	125	127
Administration costs	5,775	5,510	6,047	5,141
Custodial fees	662	271	640	599
Investment fees	10,709	10,106	8,807	8,635
	$17,371	$16,135	$15,704	$14,564

13. Related Party Transactions

All Government of Saskatchewan agencies such as ministries, corporations, boards and commissions are related to the Plan by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control or significant influence by the Government of Saskatchewan are collectively referred to as "related parties". Costs charged by the Public Employees Benefits Agency Revolving Fund in administering the Plan are reflected in these financial statements.

The Plan holds $6.4 million (2014 - $6.0 million) in Province of Saskatchewan Bonds. Investment gains on these bonds, including the current period change in the market value of investments, was $0.2 million (2014 - $0.1 million).

The Plan has an accounts payable balance as at December 31, 2015 of $0.9 million (2014 – $0.8 million) due to the Public Employees Benefits Agency Revolving Fund.

Other related party transactions are disclosed separately in these financial statements.

Account balances resulting from the above transactions are included in the statement of financial position and are settled at agreed upon exchange rates.

14. Capital Management

The Plan receives new capital from employee and employer contributions. The plan also benefits from income and market value increases on its invested capital. The Plan's capital is invested in a number of asset classes including equities, fixed-income, infrastructure, private equity and short-term investments. The Commission has delegated the operational investment decisions to a number of different investment management firms through a number of different investment mandates as defined in the Plan's Statement of Investment Policy and Procedures.

15. Investment Performance

The investment managers make day-to-day decisions on whether to buy or sell investments in order to achieve the long-term performance objectives set by the Commission. The Commission reviews the investment performance of the Plan in terms of the performance of the benchmark portfolio over four-year rolling periods. The Plan's primary objective is to grow at a rate which exceeds the growth of the Plan's liabilities

The following is a summary of the Plan's investment performance:

	2015	
	Annual Return	**Rolling Four Year Average**
Plan's actual rate of return before deducting investment and administration expenses	7.6%	13.0%
Benchmark	5.8%	11.0%

16. Fair Value

For financial instruments including due from general revenue fund, short-term investments, accounts receivable, and accounts payable, cost approximates fair value due to their immediate or short-term maturity.

The fair values of investments are considered to be market value, the calculation of which is detailed in Note 4.

17. Contingencies

A union representing participating employees has applied by Notice of Motion, which also names several participating employers, for an order quashing purported decisions of the Commission relating to the application of actuarial surplus in the fund, as well as other relief. It is not possible to estimate the potential effect of the claim at this stage in the proceedings.

18. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

Appendix

Description of Market Indices

S&P/TSX Composite

The S&P/TSX Composite Index is Canada's bellwether electronically operated stock exchange. It is the headline index and the principal broad market measure for the Canadian equity markets. This is the basis for numerous sub-indices, which break down the Canadian market by different factors including size, Global Industry Classification Standard (GICS®) and income trust inclusion versus non-inclusion. The index is calculated and managed by Standard & Poor's and is the main benchmark for Canadian pension and mutual equity funds.

S&P/TSX Capped Composite

S&P/TSX Capped Composite index includes all constituents of the S&P/TSX Composite index with relative weighting of each constituent capped at 10% equity weighting.

S&P 500

Standard & Poor's 500 Composite Stock Index consists of the largest 500 companies in the United States chosen for market size, liquidity and industry group representation. It is a market-value weighted index, with each stock's weight in the index proportionate to its market value. For the purposes of this report, the S&P Index returns are converted from U.S. dollars into Canadian dollars and, therefore, reflect currency gains or losses.

MSCI EAFE

Morgan Stanley Capital International Europe, Australasia, Israel, and Far East Index (MSCI EAFE Index) is a widely recognized benchmark of international equity performance. It is a free-float weighted equity index comprising of over 20 developed market country underlying indices representing developed markets outside of Canada and the US.

DEX UBI

DEX (formerly Scotia Capital) Universe Bond Index covers all marketable Canadian bonds with term to maturity of more than one year. The Universe contains over 1,000 marketable Canadian bonds with an average term of 10 years and an average duration of 6.5 years. The purpose of the index is to reflect the performance of the broad "Canadian Bond Market" in a similar manner to the S&P/TSX Composite Index.

DEX All Corporate Bond

DEX All Corporate Bond Index covers all marketable Canadian corporate bonds with a term to maturity of more than one year. The index is based on the Corporate sector of the DEX UBI. The purpose of the index is to reflect the performance of the corporate Canadian bond market.

DEX Long Term Overall Bond

DEX Long Term Overall Bond Index covers all marketable Canadian bonds with a term to maturity of at least 10 years. The index is based on the long-term bonds held within the DEX UBI. The purpose of the index is to reflect the performance of the long-term Canadian bond market.

DEX Long Government Bond

DEX Long Government Bond Index covers all marketable Canadian government bonds with a term to maturity of more than 10 years. The index is based on the government bonds held within the DEX UBI. The purpose of the index is to reflect the performance of the Canadian long government bond market.

IPD Total Property

The REALpac / IPD Canada Annual Property Index is published by the Investment Property Databank Ltd. On December 31, 2010, REALpac assumed the functions of the Institute of Canadian Real Estate Investment Managers ("ICREIM"), an organization originally formed to manage the Frank Russell Index for Canada and subsequently, the ICREIM / IPD Canada Property Index. The index measures total returns to directly held standing property investments from one open market valuation to the next. IPD compiles property level information from pension funds, life insurance companies and real estate managers on a quarterly basis.

91-Day T-Bills

Canada Treasury Bills represent the highest quality short-term instruments available. The index is constructed by selling and repurchasing Government of Canada T-Bills with an average term to maturity of 91 days. The Scotia Capital 91-Day Treasury Bill Index is calculated and marked to market daily.

CPI

Consumer Price Index is used to gauge Canada's inflation rate. The series used is the all items, not seasonally adjusted, 1992 base.

Russell 2000

The Russell 2000 Index offers investors access to the small-cap segment of the U.S. equity universe. The Russell 2000 is constructed to provide a comprehensive and unbiased barometer for the small-cap segment and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

How to Reach Us

T: 1 877-506-6377 (toll-free in Canada)
306-787-2684 (Regina)
F 306-787-0244
E mepp@peba.gov.sk.ca

www.peba.gov.sk.ca

1000 - 1801 Hamilton Street
Regina, Saskatchewan S4P 4W3

MEPP Publications

MEPP Member Booklet
MEPP Matters - newsletter for plan members
MEPP In-Depth FAQs - provide detail about specific Plan aspects
Actuarial Valuations
Funding and Investment Policies
MEPP Retirement Planning Worksheet
Annual Report
In-Review

MEPP publications and other information about MEPP are available online at **www.peba.gov.sk.ca**

ANNUAL REPORT 2015